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JUNE 5-7, 1987

REPORT

BY THE

CHAIRMAN AND VICE CHAIRMAN

OF THE

SENATE DELEGATION

PURSUANT TO
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SENATE DELEGATION

ATTENDING THE CONFERENCE

WYCHE FOWLER, JR., Georgia, *Chairman*
TED STEVENS, Alaska, *Vice Chairman*

JAMES A. McCLURE, Idaho
CHARLES E. GRASSLEY, Iowa

LETTER OF TRANSMITTAL

U.S. SENATE,
Washington, DC, July 30, 1987.

Hon. GEORGE BUSH,
President, U.S. Senate.

DEAR MR. VICE PRESIDENT: Pursuant to Public Law 86-42, approved June 11, 1959, and as chairman and vice chairman of the Senate delegation, we have the honor to submit a report on the 28th meeting of the Canada-United States Interparliamentary Group which was held in Vancouver, British Columbia, June 5-7, 1987.

Sincerely yours,

WYCHE FOWLER, Jr.,
U.S. Senator.
TED STEVENS,
U.S. Senator.

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BACKGROUND AND COMPOSITION OF DELEGATION

Public Law 86-42, adopted on June 11, 1959, authorizes U.S. participation in interparliamentary conferences with Canada. The law provides that Members of the U.S. Congress are to be appointed to meet annually with representatives of the House of Commons and the Senate of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." The meetings are held alternatively in Canada and the United States.

UNITED STATES

Representing the U.S. Senate were: Wyche Fowler, Jr., Georgia, Chairman; Ted Stevens, Alaska, Vice Chairman; James A. McClure, Idaho; and Charles E. Grassley, Iowa.

Attending the meetings from the House of Representatives were: Sam Gejdenson, Connecticut, Chairman; Dante B. Fascell, Florida; Sam Gibbons, Florida; Lee H. Hamilton, Indiana; Jim Oberstar, Minnesota; Les AuCoin, Oregon; John LaFalce, New York; Timothy Penny, Minnesota; Peter DeFazio, Oregon; William Broomfield, Michigan; Bill Frenzel, Minnesota; David O'B. Martin, New York; and John Miller, Washington.

CANADA

The members from the Canadian Senate were: James Balfour, Saskatchewan, Co-Chairman; E.W. Barootes, Saskatchewan; C. William Doody, Newfoundland; Jerahmiel S. Grafstein, Ontario; Daniel Hays, Alberta; Richard Stanbury, Ontario; and George C. Van Roggen, British Columbia.

The House of Commons were represented by: Pat Nowlan, M.P., Nova Scotia, Co-chairman; Lloyd Axworthy, P.C., M.P., Manitoba; Ross Belsher, M.P., British Columbia; Bill Blaikie, M.P., Manitoba; Jim Caldwell, M.P., Ontario; Stan Darling, M.P., Ontario; Sid Fraleigh, M.P., Ontario; George Henderson, M.P., Prince Edward Island; Paul Gagon, M.P., Alberta; Ken James, M.P., Ontario; Bill Kempling, M.P., Ontario; Bill Lesick, M.P., Alberta; Fred McCain, M.P., New Brunswick; Guy Ricard, M.P., Quebec; Barbara Sparrow, M.P., Alberta; Gordon Taylor, M.P., Alberta; and Ian Waddell, M.P., British Columbia.

Committee I—Trade and Economic Issues

1. Assessment of international economic and monetary situation; issues of relevance to the United States and Canada.
2. The issue of subsidies and international agricultural trade; impact on Canada and the United States.

3. Proposed statutory changes:
   United States—H.R. 3, including proposed revision to countervailing duty and dumping laws
   Canada—draft legislation on pharmaceutical patents, copyright, film distribution, and tax on softwood lumber
4. Canada-United States Free Trade Negotiations—including dispute settlement mechanism, subsidies, and binding of provinces
5. Specific bilateral trade issues: steel, potash, U.S. vehicle tax, corn, wheat, shakes and shingles, softwood lumber, uranium.

Committee II—Energy, Defense, Space, and Multilateral

Energy:

U.S. ruling on Canadian gas exports to the United States
U.S. oil import tax
Impact of cheap oil on North American exploration and production and Canada's $350 million program for the energy industry
Bilateral hydro-electricity arrangements
Super conductor/super collider

Defense:

Security and sovereignty in the Arctic
Reykjavik aftermath: Arms control and disarmament
Cruise Missile testing
Canadian defense spending commitments, including Canadian Defense White Paper

Space:

U.S. space station—objectives, Canadian participation
MSAT (Mobile satellite communications service)

Multilateral:

Refugees
Central America
Terrorism
Drugs

Committee III—Environment, Transboundary, and Fisheries Issues

Environment:

Acid rain
Toxic wastes
Detroit Incinerator
Environmental Relations in Alaska and the Yukon:
(a) Energy Development in the National Refuge in Alaska
(b) Migratory Porcupine Caribou Herd
(c) Amauligak

Transboundary:

Great Lakes levels
Great Lakes Water Quality Agreement

Canada-United States maritime boundaries:
(a) Georges Bank
(b) AB Line in Alaska
(c) Straits of Juan de Fuca
(d) Contested Beaufort Waters

Fisheries:

Yukon salmon fishery
Depletion of West Coast stocks
East Coast fisheries:
(a) North Atlantic Fisheries Organization;
(b) Access and management on Georges Bank
Fisheries enforcement on Georges Bank and Dixon Entrance

Multilateral:

Refugees
Central America
Terrorism
Drugs

Plenary:

Cultural sovereignty
Bilateral Trade Negotiations

COMMITTEE I—TRADE AND ECONOMIC ISSUES

The Committee on Trade and Economic Issues was co-chaired by Pat Nowlan and Sam Gibbons. Besides Mr. Nowlan, other members of the Canadian delegation serving on the Committee were Senators George Van Roggen and E.W. Barootes and members of the House of Commons Ross Belsher, Sid Fraleigh, Jim Caldwell, Bill Kempling, and Lloyd Axworthy. In addition to Mr. Gibbons, the U.S. members serving on the Committee were Representatives John LaFalce, Timothy Penny, Bill Frenzel, Les AuCoin, and Peter DeFazio, and Senator Charles E. Grassley.

Canadian and U.S. Economies and International Economic Policy

Committee I opened its session with an overview of economic conditions and policies in the United States and Canada and international economic developments. An American delegate opened the discussion with an explanation that economic recovery was continuing in both countries, but at a slow pace. He explained that considerable nervousness is developing over the future of the U.S. economy, which is now experiencing the longest recovery of the post-war period. No one is predicting serious difficulty this year, but a downturn in 1988 is a serious possibility.

The most recent development in U.S. economic/monetary policy was the announcement that Paul Volker would retire as Chairman of the Federal Reserve and be replaced by Alan Greenspan. While the two have somewhat different economic philosophies, in fact their approaches to economic issues are similar and there should be little change in U.S. monetary policy. Volker won his spurs fighting inflation. Greenspan is also a strong anti-inflationist, and brings the added asset of having close political ties to the White House. A generally conservative economist, Greenspan is noted for his pragmatism.

The unprecedented U.S. trade deficit is the dominating factor driving congressional consideration of trade legislation. The dollar has been devalued 40% against the German mark, slightly less against the Japanese yen, and recently even against the new Taiwan dollar and the Korean won, but not against the Canadian dollar. While the volume of U.S. trade has changed in the last 6 months, the deficit is headed down only marginally—by maybe $20 billion this year instead of the $30 billion that had been predicted at the beginning of the year. The U.S. trade deficit is principally due to macroeconomic policies and secondarily to flat overseas markets for U.S. products.

A Canadian delegate stated that the appointment of Greenspan had also been applauded in Canada. He explained that the Canadian economy had experienced an unexpected surge of 7% in the

first quarter of 1987, possibly due to depletion of inventories in the latter part of 1986 and reduced interest rates. Economic growth for 1987 is expected to be better than the OECD projection of 2.25%, possibly as high as 4%. The budget deficit has been reduced from $34 billion in 1986 to $30 billion this year, but on a per capita basis it is still higher that the U.S. deficit.

Export performance is more critical for the Canadian economy than for the United States, as 30% of the Canadian economy is dependent on trade. The Canadian Government is particularly concerned over the rise in agricultural subsidies around the world and in the protectionist tendencies in Japan, Western Europe, and the United States.

A bright spot in the averaged economy of Canada has been wage settlements, which have been 1% below inflation; inflation is 4% and wage increases have been in the range of 3–3.5%. There is concern over the probable pressure to raise the minimum wage, which is set by the provinces and varies among them by more than a dollar, from around $3.75 an hour to around $4.85. While the unemployment rate is down, it is uneven across the country. Ontario has major pockets of economic prosperity and an unemployment rate of approximately 5–6%; in contrast, British Columbia has an unemployment rate of 12% and Nova Scotia has an unemployment rate of 22%.

The economic outlook for 1987 is moderately optimistic. While agriculture continues in a slump, due to the loss of foreign sales and increased competition from subsidies, overall the economy is improving and the expectation is for moderate economic growth, low inflation, and some small increase in interest rates.

A Canadian delegate explained that the reason for the lack of divergence in the value of the Canadian and U.S. dollars is because the Canadian economy is so locked into the U.S. economy that there is little freedom of movement. In fact, the Canadian dollar has recently increased in value against the U.S. dollar by some 4%.

In discussing macroeconomic issues, the members of Committee I devoted considerable attention to the problem of the external debt burden of Third World countries. Several members of the U.S. delegation noted that the Baker Plan had run its course and was virtually dead. It was based on the assumption that additional commercial lending would be forthcoming and the debtor nations would grow their way out of the debt, pulled by a restoration of economic growth in the industrial nations. Neither assumption has proven correct. Instead, some countries—Peru, Bolivia, Ecuador, and now even Brazil—are unable to service their external debt. And the threat posed by the debt overhang is not just economic, but also political, as the restraint that the debt burden places on economic growth begins to threaten political stability, particularly in countries with young, fragile democratic institutions such as Brazil and Argentina. Furthermore, the World Bank and the International Monetary Fund have all but exhausted their ability to deal with the debt problem.

It was suggested that the financial markets were looking for realistic action and that they welcomed the recent announcement by Citicorp to put $3 billion in reserve. However, that $3 billion is not really a loss for the Bank. The funds are simply transferred from a

general reserve into a specific, loan loss reserve, and there is no relief for the debtor nations who remain liable for the full debt. The Citicorp action has been followed by similar steps by other banks. In fact, this move puts the banks in a financially stronger position and strengthens their leverage against the debtor nations.

A Canadian delegate drew a picture of the Third World debt situation in terms similar to his American colleagues. He said we need to begin by admitting that the debt will not be repaid. Take Brazil—economically, the strongest of the debtor nations—as an example: in 1985, it had a trade surplus of $12 billion, but paid $11.9 billion on its debt, all but $.7 billion of which went for interest payments. If this pattern were to continue year-after-year, Brazil would lack the resources to fuel economic expansion, all because of debt servicing which benefits only U.S./Canadian/European banks. But the actual situation is much worse than that—as 1 year later the Brazilian trade surplus plummeted to $1 billion and Brazil suspended payment on its external debt.

The Canadian delegate pointed out that, whereas some 80% of the external debt of Latin America is commercial and the remainder official, the reverse is the case with the external debt of the countries of sub-Saharan Africa. The Canadian Government has moved to deal with the African debt it holds by essentially writing it off—by placing a moratorium on interest payments for up to 15 years.

The commercial banks have strengthened their position since the initiation of the debt crisis in 1982. European banks have written off a substantial portion of debt and Canadian Banks have provisioned—they are currently under directive to provision 20% of loans to 34 problem countries. Canadian banks will provision some $4 billion in 1987, $2 billion for domestic loans and $2 billion for external loans. New lending by the banks is being used for interest payments, not for principle or for productive investment. Most country restructurings, such as the 1986 Mexican agreement, are temporary fixes for 12–18 months, after which the threat of default reappears. So, while the position of the banks has strengthened, the position of the debtor nations has become worse over the last 5 years.

What is needed is recognition that economic growth is essential to the economic and political future of developing countries, and that the economic well-being of the industrial nations cannot be isolated from the economic health of the developing countries—we cannot grow if they do not grow.

Members from both delegations said it was time for a new approach to the debt problem. A Canadian member reported that one of the principal recommendations of a recent report entitled "Canada, the International Financial Institutions, and the Debt Problem of the Developing Countries" issued by the Senate Standing Committee on Foreign Affairs was to increase governmental financing of the international financial institutions in order to provide more financial resources to the debtor nations. An American delegate responded that Gramm-Rudman and the lack of support in Congress for the World Bank and the International Monetary Fund would pose serious difficulties in this approach for the United

States. He suggested that President Reagan could spearhead such an effort, but was unlikely to do so.

An American delegate suggested that more attention should be directed to the potential role that could be played by Japan and suggested that Japan should be involved in dealing with the debt problem. Japan recently announced its intention to provide $20 billion in financing over 3 years for developing countries, a powerful demonstration of its preeminent economic power.

An American member raised the potential of privatizing the numerous state enterprises in Latin America. If debt were exchanged for equity in those firms, a portion of the external debt would thereby be eliminated and better management would be introduced into the firms. The response was that, while privatization and debt-equity swaps were occurring, they were moving very slowly and could not cover more than a small portion of the Third World external debt problem—at most 5-15%.

The members also discussed the absence of an appropriate international forum to handle the debt problem. For example, Brazil refuses to talk to the IMF—the institution that has the lead on the debt issue. The World Bank is more concerned with project assistance than debt management. A suggestion was made that the World Bank delve more into structural adjustment financing, but even with Barber Conable's policy to move in that direction it will be very difficult to bring along the Bank's bureaucracy. In the absence of strong leadership by any international institution or by governments, the commercial banks are, in effect, determining international policy on the debt issue.

International Agricultural Trade

The members of Committee I devoted considerable time to the matter of international agricultural trade and subsidies. A Canadian member commenced the discussion by stating that no country is blameless on subsidizing agriculture. One of the problems with subsidies is that some people learn to "farm the system". That is unacceptable. What is necessary is a cap on payments so as to avoid government support for those who don't need it.

The Canadian farmer is being hurt badly by the 1985 U.S. farm legislation and the decline in world grain prices and markets. Canada faces the prospect of losing 30 percent of its farmers. These farmers cannot sevice their debt—the same problem being faced by the Third World. For those who are good farmers and are unable to meet their debt payments, some mechanism needs to be found to keep them afloat. If the Canadian farmer can get through the current period, he is likely to be more competitive than the U.S. farmer because of lower Canadian subsidies.

An American delegate explained that the American farm community is divided on agricultural issues. The 1985 farm law was a compromise with the White House, which wanted to reduce loan rates in order to make U.S. farm prices more competitive internationally. The law reduced loan rates but not target prices, so government payments rose rapidly and production was encouraged. It included an important conservation program which pays farmers to take marginal land out of production; that program has taken

some of the pressure off production which is finally declining. However, even with lower loan rates, world grain prices are even lower, and the EEP is making up the difference.

The current options for altering U.S. farm policy are: (1) repealing the 1985 farm bill and replace it with higher prices and managed production, as favored by some farm groups; (2) reducing loan rates and target prices, as supported by the White House; and (3) a totally new approach of disconnecting prices and production from subsidies and payments to farmers (which would avoid encouraging farmers to grow more than the market can handle), such as through direct welfare payments to farmers which might be phased out over a 5-year period. Legislation which is currently moving through the House Agriculture Committee would freeze loan rates and target prices, provide additional funding for the conservation program and for the EEP, and put a cap on target payments to any individual farmer.

The delegate explained that in some commodities, 50 percent of a farmer's income is derived from the government. It would be better for governments to move away from the business of subsidizing agriculture. Perhaps the current trend of increasing farm subsidies can be reversed at the Venice Economic Summit and the Uruguay GATT Round. The difficulty is finding a way to back away from subsidies once they are in place.

A Canadian inquired whether there was any consideration being given in the United States to an international grain agreement. The response was not at this time, but that maybe attention should be directed to developing a multilateral accord on food aid.

An American delegate suggested that the principal reason the United States has developed such an extensive array of agricultural subsidies is that it is farm interests who sit on the committees of Congress that write farm legislation and they are allowed to write themselves a free ticket. It is time to get others involved—those who have to pay for the programs.

A Canadian noted that, although grain production in the traditional producing countries is finally declining, it is increasing in countries that had been Canadian export markets. He also noted that the farm situation in Canada had become so critical that a new political party recently was formed for the purpose of advocating increased farm income.

A Canadian inquired whether Gramm-Rudman did not impinge on the amount of funds available for farm programs. The answer was that it should, but for a variety of reasons, does not. The court challenge to the law struck the self-enforcing mechanism on the grounds that it was unconstitutional, thereby leaving Gramm-Rudman principally hortatory. The Congress is fudging on the budget, through being unrealistic on economic assumptions. And, Congress is operating under the assumption that there will be an increase in revenues through a tax hike. There was a discussion among the American members of a tax increase this year, concerning the likelihood which there was a considerable difference of opinion.

The members of Committee I also discussed the likely direction of agricultural policy in the European Community. It was noted that the budget pinch within the Community was beginning to

awaken the Europeans to the economic realities of the Common Agricultural Policy (CAP), but there was disagreement among the members as to whether the budget squeeze would bring much real change in the CAP. It was noted that the CAP is not just an economic policy, but also a social policy and therefore very difficult to change. Not even Margaret Thatcher has touched farm subsidies. Agricultural policy in Europe supports what in essence is a gentry class, a relatively well-off middle class that provides critical support for conservative political parties. There appeared to be some agreement among members of Committee I that agricultural policies which support individual farmers rather than production would be less destructive to world agricultural trade and markets.

An American member expressed appreciation for Canadian leadership in the Cairns Group. He expressed some optimism that the growing fiscal pressures in the EEC would, over the long haul, build pressure to reduce the subsidies and protection of the CAP. He said that it was principally poor, small countries that are hurt by U.S. agricultural policies—U.S. sugar policy hits the CBI countries and U.S. rice policy hits Thailand. Twenty years ago Europe was warned that continuation of the CAP would result in the United States adopting a similar policy, and we are almost there.

Another American inquired whether the EEP was causing U.S. agricultural products to make inroads into traditional markets from Canada. The response was not yet, but that it is anticipated to do so this year, particularly in the Soviet market.

A Canadian explained that 80% of Canadian wheat is exported, compared to 50% of American wheat. Saskatchewan is the principal grain producing province and the government cannot let the entire province go under, so farm policy sometimes has to be social policy as well. Another Canadian noted that taking subsidies away from farmers would result in a major loss of seats in parliament for the governing party.

Proposed Statutory Changes

U.S. draft trade legislation—H.R. 3

The members of Committee I devoted considerable attention to congressional consideration of trade legislation, specifically H.R. 3, an omnibus trade bill which passed the House of Representatives in April, 1987.

An American delegate made a presentation to the Committee on the nature and scope of H.R. 3. He explained that the bill covers many issues, 95% of which are not particularly controversial. It is a few isolated provisions, such as the Gephardt amendment, that have attracted most of the criticism and given the bill a protectionist tint.

The Congress must pass trade legislation in order for there to be international trade negotiations, because the power to control foreign trade rests with the Congress which has to grant the President the necessary authority. The negotiating authority that is provided by H.R. 3 is the broadest authority to negotiate trade that has ever been given a President. It would authorize the President (1) to proclaim tariff reductions and (2) to submit to the Congress legislation changing non-tariff barriers and U.S. law under a "fast

track" mechanism, under which the Congress has denied itself the ability to amend the legislation and must simply accept or reject it. This is a tremendous grant of constitutional and political power. H.R. 3 has picked up some unwanted baggage along the way, but the American member predicted that the objectionable provisions would be corrected in conference and that the President will be able to sign the final product.

As to the provisions in H.R. 3 aimed at unfair trade practices, particularly the changes in countervailing duty and dumping actions, the American delegate offered little hope to the Canadians that those provisions would be changed substantially from their current form. He said he and many other Members of Congress are very aggressive and adamant in combatting the use of subsidies. If Canada were to adopt identical legislation that would affect subsidy practices in the United States, that would be fine, even welcomed. It is most unlikely that any country wants to get into a subsidy war with the United States, and it should be avoided. It is difficult to reach an agreed definition of subsidy—a government bounty or grant to a private individual. The provisions in H.R. 3 are aimed only at subsidies that are harmful to other countries.

A Canadian responded that portions of the proposed U.S. trade legislation would cause serious political backlash in Canada, particularly the broad definition of subsidy which transgresses international practice. At issue is the matter of national sovereignty, the ability of a country to set its own policies. A subsidy is not necessarily an unfair trade practice, such as Canadian policies to promote employment in the poorer provinces or to finance hydropower.

An American delegate explained that the reason for the strong proposed legislation on subsidies is that international standards are inadequate and the GATT is not asserting the necessary leadership. The Congress is simply attempting to set higher standards and welcomes other countries to adopt mirror legislation, which would induce the United States to correct its own subsidy practices. A Canadian suggested that the more appropriate place to take such action is within the GATT, not unilaterally.

Several Canadians inquired as to whether the United States would agree to including within a bilateral free trade agreement an exemption for Canada from the subsidy provisions of the draft legislation and from the countervailing duty provisions of existing law. The response was "no", particularly considering that the United States provided Israel with no such exemption in last year's United States-Israel free trade agreement.

An American delegate who was opposed to H.R. 3 as passed by the House reiterated the comments of an earlier speaker that it was important for Congress to enact trade legislation in order to provide the President with the necessary negotiating authority and to release some of the steam from the protectionist pressure that has been building as a result of the U.S. trade deficit. The bill attempts to fill in the gaps in GATT. While it would be preferable to take issues to the GATT, the Congress may not have that liberty at this point.

H.R. 3 can rightly be criticized for unilaterally establishing principles and mandatory retaliation. However, the President can

waive the retaliation for reasons of broad economic policy. Some of the provisions dealing with labor rates, agricultural trade, and telecommunications are just as objectionable. However, H.R. 3 is preferable to the trade bill that passed the House in 1986 and can be improved. Just as in 1984, when both the House and Senate passed bad trade bills but the conference committee produced a positive bill, it is possible that Congress will in the end enact productive trade legislation this year. The Senate will not consider its trade bill before the end of June, and a final product will not appear from the conference committee before the fall.

An American noted that in 1986 the House was controlled by the Democrats and the Senate by the Republicans, so each body could throw to the other irresponsible legislation. But now, with both bodies under control of the same party each has to be more responsible. The Ways and Means Committee portion of H.R. 3 is an improvement over the provisions which that Committee reported in last year's trade bill.

A Canadian asked whether the definition and provisions on subsidies were negotiable. The answer was "unlikely", given that the Senate Finance Committee adopted provisions similar to those in the House-passed bill.

An American explained the "fast track" authority for congressional consideration of a United States-Canadian trade agreement. October 5, 1987, is the last day for notification to Congress of the intention to enter into an agreement, in order to meet the congressional requirement of a 90-day notification to Congress of the intent to enter an agreement under the "fast track" authority, which expires on January 3, 1987. During that 90-day period the executive branch will consult with the House Committee on Ways and Means, the Senate Finance Committee, and any other committees of jurisdiction. January 3, 1988, is the last day the President can sign an agreement. Sometime thereafter, the President must submit to the Congress a document containing the final text of the agreement, a draft implementing bill, a statement of any proposed administrative action, an explanation of the changes to existing law, and a statement of how the agreement serves U.S. commercial interests. The Congress then has 60 legislative days to accept or reject the agreement and the implementing legislation. No amendments are permitted and positive action by the Congress is required for the agreement to take effect.

A Canadian inquired whether the "fast track" authority could be extended. The response was that technically it could be extended through new legislation, but that the political reality was most unfavorable to extending the authority. H.R. 3 specifically did not extend the authority because it was felt that the pressure of a deadline was the only thing that would produce an agreement.

An American said the U.S. Congress would not give up authority to impose countervailing duties, and that it really was not necessary as United States and Canadian laws are similar in nature. What is needed in a free trade agreement is a dispute resolution mechanism, in which Canada and the United States would have one vote each and a neutral third party would cast the deciding vote. The role of this entity would be to interpret the law. The question is whose law—Canadian, United States, international, or a new body of law included in the trade agreement? The negotia-

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tors have yet to face up to this matter, which is critical to the agreement.

A Canadian suggested that there was no expectation that the United States would give up its right to impose countervailing duties, but that it was expected that the agreement would include a definition of subsidy and that countervailing duties would be relied on only as a last resort.

On the matter of current U.S. practice and proposed legislation on subsidies, an American member explained that, if a subsidy is generally available to all and is not injurious, it is not actionable. The difference between the first and second U.S. ruling on softwood lumber is that in the interim there was a U.S. court ruling that subsidy exists not just when there is de jure subsidy, but also when there is de facto subsidy. That is a change in U.S. practice and is the difference between United States and Canadian policy.

A Canadian member said that current law and practice on subsidies is crazy. For example, Canadian corn producers brought action against the American corn subsidy irrespective of the fact that they receive similar subsidy from the Canadian Government. Another Canadian suggested it was essential that the two countries harmonize their subsidy laws.

Several Canadians said that, while a comprehensive, across-the-board agreement governing the entire reach of Canadian-United States trade should be the objective of the trade negotiations, it was clear that agriculture had to be excluded. Several American members responded that such an approach was not acceptable. It was the U.S. position that all issues had to be on the table, nothing excluded, although certain areas might have to be reserved at the end of the negotiations.

An American delegate suggested that the key to the subsidy issue and U.S. trade remedies would be for the United States to retain its right to invoke retaliatory action, but only after use of the dispute resolution mechanism which should obviate the need to take recourse to retaliatory action. Several of the delegates expressed the opinion that a dispute resolution mechanism was critical to the agreement.

A Canadian raised the issue of how to insure enforceability of the trade agreement on the part of the United States. He noted that the agreement will be brought into the Canadian legal system as a treaty, which therefore cannot be altered unilaterally, whereas under the U.S. "fast track" it will simply be a statute subject to subsequent unilateral U.S. alteration. An American suggested that it is impossible to bind future Congresses, which is a limitation under which we always operate, and that this is another reason why an effective dispute resolution mechanism is necessary.

Several delegates stated that the key question is whether our bilateral trade relations will be better off with or without a free trade agreement—and that is the final test to which any agreement must be put.

CANADIAN DRAFT LEGISLATION

PHARMACEUTICAL PATENTS

For a number of years U.S. pharmaceutical firms and the U.S. Government have complained to the Canadian Government about the Canadian patent law which allows the granting of compulsory licenses for pharmaceutical patents and the payment of an artificially low royalty of 4 percent to the innovator of the pharmaceutical. This effectively removes patent protection for drug products researched and developed in Canada, as well as those imported. Canada is the only major industrialized nation with a compulsory licensing system for a single industry.

In 1983 the Canadian Government announced its intention to bring Canadian law into line with that of other industrialized countries. However, it was not until November 1986 that the Canadian Government introduced into Parliament a revised patent bill, which would provide exclusive patent protection for pharmaceuticals.

An American delegate expressed the view that, while American firms and the U.S. Government are pleased that Canada is finally moving to correct its patent law, the proposed legislation does not provide the extent of coverage that had been expected. It is deficient in discriminating on patent terms between drugs developed in Canada and those developed elsewhere, threatening patent loss for price abuse, and maintaining the potential for compulsory licensing to Canadian firms for export only.

Several Canadians explained that the issue of pharmaceutical patents is very political in Canada. The legislation, C–22, has passed the House and is now in hearings in the Senate. The Senate committee had originally been scheduled to report the bill on June 16, but that date appears to be slipping. There is a sense that the only reason the Government submitted the legislation was because of pressure from Washington, and there is considerable political opposition in Canada to the legislation. The bill encountered procedural problems in the House. There is the possibility that the Senate might amend the bill, in which case it would have to go back to the House. The House of Commons would likely then pass the original version of the bill, but only because the Government has made a commitment to it. The Parliament is likely not to complete action on the bill before the fall or even next year.

COPYRIGHT

Canadian copyright law is based on the Copyright Act which was written in 1921 and therefore does not account for the many subsequent technological innovations. In 1986 the Canadian Government issued a paper calling for protection of foreign works and computer software under copyright according to the principle of national treatment.

A Canadian member explained that the expected draft copyright legislation had just been tabled in the Parliament last week, and that the main gap from the U.S. perspective is likely to be the absence of retransmission rights. Canadian law denies all copyright holders control over rights or remuneration for cable retransmis-

sions. The U.S. industry claims the absence of retransmission rights costs it $100–$250 million a year. The Canadian estimate is approximately $10 million. The Canadian Government has accepted the principle of retransmission rights but has yet to draft the necessary legislation, which is expected to be presented to the Parliament in the fall. This issue is likely to become heated in the near future, particularly if CANCOM carries through with its plans to broadcast into California the Detroit stations it currently carries.

Another Canadian said that retransmission rights were not included in the proposed copyright legislation because of the difficulty of determining how to handle them, as the American method is not acceptable in Canada. The Canadian formula is for the cable companies to pay into a common fund, which is to be used by Canadian producers but which to date has not been used. The difficulty is determining how to direct the payment into the right pocket—the station's or the producer's. Canada already pays a heavy price for pre-release—10% of the U.S. price, which is based on the potential market, but the actual audience is less because those who speak only French are included in the potential market. Another Canadian pointed out that there is a major debate in Canada as to whether the cable companies should be permitted to engage in direct broadcasting.

An American expressed satisfaction that the Canadian Government had accepted the principle of retransmission rights and the hope that implementing legislation would be forthcoming.

FILM DISTRIBUTION

In February 1987 Canadian Communications Minister Flora MacDonald announced the Government's intention of introducing legislation requiring import licenses for foreign films. Under the proposed import licensing scheme, foreign-owned distribution companies in Canada would not be eligible to import films unless their patent company produced the films or had worldwide distribution rights.

Several Canadian delegates explained the genesis of this proposed policy. 97% of films screened in Canada are distributed by foreign companies. It was also pointed out that, acting under the Webb-Pomerene Act which permits certain collusion outside the United States that is not permitted under U.S. anti-trust law within the country, U.S. firms demand that if they receive U.S. distribution rights for a foreign film they also obtain Canadian distribution rights. Such action would be illegal if done within the United States, and it amounts to an unfair trade practice and prevents the establishment of viable Canadian distribution companies. Distribution companies and theatres in Canada are American-owned, which causes difficulty in getting Canadian films distributed and viewed in theatres. The proposed import licensing system would result in the U.S. share of the market being reduced from the current 97% to some 80%.

An American delegate responded that the effect of the law is to discriminate against U.S. distribution companies and prevent them from distributing foreign films in Canada. Another said he was

confused as to what was the real nature of the problem—was it a cultural problem of few Canadian-produced films or a legal/economic problem that U.S. distribution films are engaged in what should be illegal anti-trust actions that restrain trade? He suggested that the real problem was the proposed solution, which is an import restraint in violation of GATT law. Several Americans suggested that there must be ways to deal with this matter other than import licensing that will shut out U.S. firms, such as government subsidy or reserving a portion of screen time to Canadian product. It was noted that the U.S. industry had proposed alternatives to bolster the Canadian film making industry, but they had been rejected by the Canadian Government.

A Canadian said it is inappropriate to tie a cultural issue to GATT and that European countries have made reservations against GATT requirements in order to protect culture. He also pointed out that the United States faced a similar situation at the turn-of-the-century, when some 80% of the books sold in the United States were published in England. The United States enacted a law requiring U.S. publication, and the situation was turned around. An American responded that that law was improper and has recently been allowed to lapse. A Canadian conceded that the law was changed, but only years after the U.S. book publishing industry had been built up and could compete.

Specific Bilateral Trade Issues

STEEL

Canada is the largest supplier of steel to the United States that remains outside the Steel Program. In light of the fact that Canadian companies are fair traders in steel and the high degree of integration between the Canadian and U.S. steel markets, Canada requested to remain outside the program, and that request was granted. The U.S. industry considers 2.4% of the U.S. market to be the appropriate share for Canadian steel. In July 1986 the United States protested Canada's 3.4% market share for the first half of the year and protested again in November when Canadian penetration hit 4.9% of the U.S. market. In April the Canadian Government announced a steel export monitoring program, the legislation for which was subsequently enacted.

A member of the Canadian delegation argued that the traditional level for the Canadian share of the U.S. steel market is 3%. He said that Canadian penetration did go above that level, but that the matter is now in hand. He explained that the Canadian steel industry is modern, efficient, and profitable, and that it is frustrating for Canadian firms to have to turn away two out of every three orders from the United States. The explanation for the surge in Canadian exports is: increased orders resulting from the USX strike; third country diversion through Canada; and, steel that is shipped from the United States to Canada and returned after processing may be counted as Canadian steel. There are 14 Canadian primary producers of steel, some 700 exporters, and on the order of 150,000 trucks moving steel across the border every year. So, it is difficult to keep tabs on the cross-border flow.

The new monitoring program commenced on June 1, and within 2 months there will be accurate data on the source and flow of steel. Everyone exporting steel must have an export license and identify the origin of the steel. Canada and the United States are each other's largest steel market. Canada buys $1.25 of steel related inputs from the United States for each $1.00 of Canadian steel that flows into the United States.

An American member conceded that the United States and Canada do have a special relationship in steel and that Canadian companies have not been guilty of dumping. Still, it is essential to stem the surge in Canadian penetration of the U.S. market.

Another American inquired whether it was true that Canada was building a new large, subsidized steel mill. The answer was that an old, antiquated mill in Nova Scotia, Sysco Mill, is scheduled to be refurbished to produce for the Canadian market. The federal contribution is slated to be $110 million. However, the project has been on the books for some years and it is still uncertain whether it will actually get off the ground.

POTASH

In February 1987 two potash companies from New Mexico filed an antidumping petition against Canadian potash imports. The petition alleges that Canadian potash is being sold in the United States at 43% below fair market value and causing injury to the U.S. industry. In early March the Department of Commerce initiated an investigation and in late March the International Trade Commission issued a unanimous affirmative preliminary determination of injury.

A Canadian member asserted that the Canadian Saskatchewan Crown Mining Company, the major Canadian distributor of potash and the target of the petition, is not dumping and expressed surprise that the petition was accepted by the Commerce Department. He said that the petition was brought by two small producers—and was not entered into by the principal producer of potash in New Mexico, the International Minerals and Chemical Corporation (which also has mines in Canada)—and, therefore, is not representative of the U.S. industry. He noted that Canada is the source of some 75% of the world's potash reserves, whereas the United States has one-half of 1 percent. The U.S. mines are running out of reserves and are very expensive to operate, and that is the real source of the problem.

The Province of Saskatchewan took over control of some potash mines years ago, when potash sales were booming, but in recent years the market has been flat and prices are one-half to one-third of earlier levels. Several of the major Saskatchewan mines are in trouble, one of which has already been closed, and the Canadian Saskatchewan Crown Mining Company has been losing money for several years.

An American inquired, if the Saskatchewan company is losing money, why not raise prices. The answer was that the Soviets and other producers would underprice Canadian potash and make inroads into the U.S. market. Another member noted that the slump

in farm prices was obviously adversely affecting demand for potash.

U.S. VEHICLE TAX

In 1984 the Congress enacted legislation which raised the Heavy Vehicle Use Tax to a level ranging from $240 to $550 per vehicle and mandated a study on the effects of transborder trucking by the Federal Highway Administration, to be submitted to the Congress by December 31, 1987. In May 1985 the Internal Revenue Service suspended collection of the tax on Canadian carriers until the study was completed. However, in January 1987 the Senate version of the Federal-Aid Highway Act of 1987 included a provision that would have made Canadian heavy trucks liable for payment of the tax. The Conference Committee on the bill adopted a compromise provision that requires Canadian trucks to pay a prorated 75% of the applicable tax.

A Canadian delegate explained that this action by the Congress was a real slap at Canada, particularly when the Parliament is in the midst of considering C-18, which would deregulate Canadian trucking and open it to greater U.S. competition. It has resulted in pressure within Canada for the imposition of a similar tax on U.S. trucks using Canadian roads. He suggested that an appropriate solution would be a prorated mileage tax.

An American member agreed that the action by the Congress was premature, in light of the report which would be forthcoming in the fall. He said he expected that report to recommend a fee based on mileage. He explained that the issue had arisen in the United States because Canadian trucks had free use of U.S. roads, without having to pay the tax charged their American competition.

CORN

In July 1986, pursuant to a petition filed by the Ontario Corn Producers' Association, the Canadian Government initiated a countervailing duty investigation of grain corn in all forms imported from the United States. In November the Ministry of National Revenue, Customs and Excise made a preliminary determination of subsidy of U.S. corn exports and of material injury to Canadian producers, and the Canadian Government imposed a provisional duty of $1.04 (Canadian) per bushel on corn imports from the United States. In February/March a final determination of subsidy was issued. The final subsidy margin was calculated at $.849 (Canadian) per bushel, and all U.S. imports were thereby subject to that countervailing duty rate.

A Canadian member explained that the determination was based on U.S. deficiency payments and the fact that U.S. corn output determined world corn prices, thereby forcing Canadian producers to sell at the U.S. price even though it was below the cost of production. An American member conceded that U.S. corn producers benefit from subsidy, but said the Canadian determination was unfair because both countries have subsidies similar in value. Also, U.S. imports into Canada have been declining and account for only 4.7% of the Canadian market. He said the U.S. Government, before responding to the Canadian action, was awaiting the decision of the

GATT Subsidies Code Committee, to which the case has been referred.

A Canadian said this was the type of situation he had been talking about earlier, whereby one country imposes countervailing duties irrespective of the fact that its own industry may benefit from subsidies. He suggested that the Canadian countervailing action on U.S. corn was the mirror image of the U.S. countervailing action on Canadian hogs. An American disputed that the situations were similar because U.S. hog production is not subsidized.

It was suggested that, ironically, the countervailing duty action may actually result in an increase in U.S. corn imports into Canada, as Canadian corn glutten exporters will receive a rebate of the duty and will therefore prefer to purchase U.S. corn over the more expensive Canadian corn.

SHAKES AND SHINGLES

In October 1985 the U.S. wood shakes and shingles industry filed a petition with the U.S. International Trade Commission under section 201 of the Trade Act, under which a U.S. industry can seek relief from injury from imports. In February, 1986 the ITC found injury and in March recommended imposition of a 5-year 35% tariff on imports of western red cedar shakes and shingles. In May, 1986 the President imposed a tariff beginning at 35%, declining to 20% after 30 months (at which point there must be an ITC review), and to 8% in the fifth year. In retaliation, in June, 1986, the Government of Canada imposed tariffs on U.S. imports into Canada valued at $1.4 billion (Canadian) and a ban on exports of cedar logs.

Several Canadian members explained that the timing of the U.S. action was particularly unfortunate—it occurred on the first day of the bilateral free trade negotiations and caught Canadian Prime Minister Mulroney totally by surprise. It forced the Canadian Government into taking retaliatory action, which amounted to little more than shooting itself in the foot. Because of considerable domestic protest against the tariffs—particularly from publishers, christmas tree growers, computer manufacturers, and importers of tea bags, the tariffs were lifted in February 1987 on the grounds that the U.S. tariff had not enhanced the competitiveness of the U.S. industry and had only increased U.S. consumers' costs and that the ban on export of red cedar logs eliminated the need for retaliatory tariffs. A Canadian said he did not necessarily blame the United States for the action it took, but warned the Americans not to expect Canada to lift its ban on red cedar logs to supplement the dwindling supply in the United States.

An American delegate said that the President's timing was bad in this case, but that he had to take some action in order to let the pressure off and get approval of authority for the free trade negotiations. The United States also shot itself in the foot, as the primary result of the tariff has been to raise U.S. prices of shakes and shingles. Canada had the right under GATT to retaliate, and maybe it is a positive thing that Canada exercised that right, as a lesson to Americans that the U.S. economy is not so powerful or insulated as to be immune from retaliation.

Another American explained that the lumber industry in the Northwest was puzzled by the decision. They consider the real issue with Canada to be Canadian softwood lumber and the stumpage system. Why target shakes and shingles which is a relatively minor portion of the overall lumber industry and for which there is a dirth of U.S. supply?

A Canadian member said that one of the frustrating and infuriating aspects of this dispute is that the U.S. countervailing action and subsequent Canadian retaliation received front-page attention in Canada and caused an uproar in Canada, but received little attention in the United States.

SOFTWOOD LUMBER

In 1985 over $3 billion of Canadian softwood lumber was imported into the United States. American lumber companies have for many years alleged injury from unfair competition from Canadian softwood lumber imports, particularly from provincial stumpage fees, the low level of which does not cover appropriate costs and therefore amounts to a subsidy. In the United States the federal government owns about 20 percent of the forests, and stumpage prices are set at a minimum price and then bid up through an auction system. In Canada, provinces own over 90 percent of the forests and set a fixed price on stumpage under long-term contracts.

In 1983 the Department of Commerce ruled negatively in a countervailing duty case that the Canadian lumber industry was being subsidized. However, in May, 1986 a second countervailing duty petition was filed, and in October the Commerce Department issued a preliminary determination that Canadian producers were being subsidized at the rate of 15 percent. The final determination, due December 30, 1986, was preempted by a bilateral agreement that day under which the Canadian Government would impose a 15 percent export charge on its softwood lumber exports to the United States. In return, the countervailing duty petition was withdrawn and the Commerce Department did not issue a final determination. The agreement exempts some 20 re-manufactured products ("remans") from the tax to the extent value is added to the softwood lumber input.

Several Canadian delegates set forth the Canadian view on this sensitive issue. The Canadian lumber industry and political opposition objected to the Government signing the bilateral agreement. They argue that it was a sell out to the United States, that the second petition amounted to double jeopardy, and that the Canadian stumpage practices are consistent with international law and the Government should have fought the case through to the end and sought vindication in the GATT. This dispute was held up as an excellent example of why a bilateral dispute mechanism was needed.

A Canadian said that his Government has been seeking to place additional items on the list of products the value-added portion of which are not liable for the 15 percent duty. The position of the U.S. Government has been that this request would be dealt with only after Canada enacted the legislation necessary to collect the 15 percent export duty. That legislation has recently been enacted

by the Parliament, so the Canadian Government is now looking to negotiate this issue with the U.S. Government. An American delegate explained that this was a sensitive issue and would be closely followed by the U.S. industry.

An American member suggested that the two countries should work together to seek ways to open the Japanese market to processed and finished lumber products. Particularly with laser-driven saws, it is a myth that the North American industry cannot produce to Japanese specifications. There is no substitute for the North American softwood which the Japanese market demands and Canada and the United States should take advantage of their potential market leverage. A Canadian delegate said that Canadian officials have spoken to Prime Minister Nakasone about Japanese building codes that rule out North American standards and products and that the Japanese Government is changing its laws. It was suggested that it would be easier to deal with the Japanese if the United States would exercise its market leverage and prohibit the export of logs. An American agreed with that suggestion. It was pointed out that fish, agriculture, and logging are the most heavily subsidized/protected areas of the Japanese economy, so it will not be easy to secure changes in Japanese practice to penetrate that industry.

An American member expressed unhappiness over the agreement which resolved the softwood lumber dispute. He said that the United States rather than the Canadian Government should have imposed the 15% export duty, as the Canadian Government can remit the fee back to the provinces which can plow it back into the lumber industry. Furthermore, the rate should have been in the range of 25% rather than 15%. Another American said this case demonstrated the need for a common definition of subsidy and suggested that the negotiated settlement must be appropriate if both sides are unhappy with it.

It was pointed out that the next big issue in the softwood lumber dispute would be efforts to replace the export tax. One suggestion was that it be left in place and be rebated to the provinces. Another was that the stumpage fee be increased by 15%. The problem with that approach is each province has a different stumpage formula and fee, dependent on the value of the timber and the cost of cutting and transportation. The Atlantic provinces might agree to an increase in the stumpage fee, but British Columbia probably would not. A major objection to increasing the stumpage fee is it would boost inflation in Canada—such as by raising the cost of housing—and would raise Canadian export prices, such as for pulp and paper, thereby resulting in a loss of foreign sales to Europe and Japan. Several Canadians reported that the likely result would be a legal and regulatory checkerboard, with each province adopting its own, separate measures.

URANIUM

Canada emerged during the 1970's as a major supplier of uranium. Canadian reserves are significantly richer than United States. It is anticipated that the United States will import more than 50 percent of its requirements through the 1990's. In 1982 the Atomic

Energy Act was amended to require an annual determination of the "viability" of the U.S. domestic uranium mining and milling industry. The review for 1984 found the industry "not viable". Subsequent to the 1984 review, an interagency study recommended that no action under U.S. trade law be taken to restrict imports, as available remedies would provide at best only short-term relief for the U.S. industry. However, in June 1986 the District Court ruled to require the Department of Energy to restrict enrichment of foreign uranium until the viability of the U.S. industry is assured. In July the Tenth Circuit Court of Appeals issued a stay of this order pending appeal, and the matter is still pending. In November 1986 the Department of Energy issued its annual viability assessment for 1985, and again the U.S. industry was found "nonviable".

A related issue is the Canadian requirement that uranium be upgraded to the maximum extent possible in Canada prior to export. U.S. companies which convert uranium oxide into uranium hexafluoride complain that this policy adversely affects their access to low-cost Canadian ore, and the U.S. Government asserts that this policy violates GATT Article XI in restricting imports.

A Canadian member explained that Canada is the world's largest producer of uranium, the price of which has varied from $40 to the current price of $17. U.S. production has declined considerably in recent years. The U.S. complaint against Canadian export restrictions is legitimate, as are Canadian complaints against efforts to restrict the U.S. market, which include periodic proposed legislation to limit imports. It was suggested by several members of Committee I that both countries should rid themselves of trade restrictions and that perhaps that was a matter that could best be handled in the free trade negotiations.

COMMITTEE II—DEFENSE AND ENERGY ISSUES

The Committee on Defense and Energy was co-chaired by Sam Gejdenson and Barbara Sparrow. Besides Mr. Gejdenson, other members of the U.S. delegation serving on the Committee were Representatives Les AuCoin, William Broomfield, Peter DeFazio, Dante Fascell, Lee Hamilton, David Martin, Jim Oberstar, and Senators Wyche Fowler and James McClure. In addition to Mrs. Sparrow, the members of the Canadian delegation were Paul Gagnon, Guy Ricard, Gordon Taylor, and Ian Waddell of the House of Commons and Senators James Balfour, Jerahmiel S. Grafstein, and Daniel Hays.

Hydroelectric Power

An American delegate opened the discussion of hydroelectric power by describing how the different regions of the United States view Canadian exports of hydroelectric power. In the eastern States there is a geographical proximity between American buyers and Canadian producers making for a strongly cooperative relationship with few problems. For the New England States and New York, Canadian hydropower is a cheap, clean, and secure source of energy from a friendly supplier. Hydro-Quebec has indicated an interest in developing new hydroelectric facilities in advance of Canadian needs and dedicating the output, both capacity and energy, to the U.S. market under long-term contracts. Pricing terms for these dedicated sales will likely be based on the cost to Canada of building and operating the new facilities.

The view of the Midwestern United States is radically different from that of the East. Ontario Hydro is the only Canadian utility which has an interconnection with Michigan, supplying in 1984 and 1985 less than 1% of the electric energy requirements in lower Michigan.

As a coal-producing region, these Midwestern States would prefer an exclusionary policy that would lock out Canadian sourced energy. However, the U.S. delegate noted that this view is a minority one in the Congress and that he did not see this type of restrictive legislation carrying much weight in the House of Representatives or in the United States-Canada free trade talks. The other U.S. delegates agreed with this assessment.

The U.S. member then went on to describe in detail the view of Canadian hydroelectric power held by those in the Western States, particularly in Washington, Oregon, and California. He explained that the U.S. market in the West for hydroelectric power began at the Washington-Canadian border and extended to the California-Mexican border, with Washington and Oregon being energy generators and California being a large energy consumer.

The conflict between the Pacific Northwestern States and British Columbia thus arises over the fact that both are energy suppliers and compete for the lucrative California energy market. Additionally, the Bonneville Power Administration, a federal power marketing agency, controls almost all access to power transmission lines through Washington and Oregon to California. The limited capacity of the international transmission lines into California does not permit the distribution of all available surpluses to the California market. Consequently, there is intense competition among utilities in Oregon, Washington, and British Columbia for the critical intertie access.

In response to a question from a Canadian delegate, a U.S. member made it clear that the preference system for access to the BPA transmission lines is not targetted at Canadian suppliers but is applied to any and all utilities who are noncooperative purchasers.

A possible solution to the limited access to California was mentioned by a U.S. delegate. He said that another intertie might be constructed, providing greater access to the State's energy consumers. Currently two major projects are planned to increase the capacity of the intertie to 7800 MW by 1990: an upgrade of the existing DC line and establishment of a third AC line. In 1985 the provincial government of British Columbia indicated an interest in building an 800 MW dam at Site C on the Peace River. The American delegate said he anticipated considerable opposition in the Pacific Northwest to Site C on environmental grounds.

Additionally, a long-term solution to both the California market competition and to the intertie access may be an arrangement whereby Canada could be an energy supplier to Washington and Oregon while those States in turn sell their surplus to California. There is still, however, a great deal of resistance to this type of solution in the Northwestern States.

A Canadian delegate responded by describing the regional differences in Canada with respect to hydroelectric power and exports to the United States. Moving from East to West across Canada, the delegate said that New Brunswick has an intense interest in hydroelectric and nuclear energy exports to the Northeastern United States. Quebec, he noted, provides most of the Canadian hydroelectric power that is exported to the United States and could increase its sales. Ontario imports its energy from the neighboring provinces of Quebec and Manitoba. For its part, Manitoba exports a great deal of interruptible hydroelectric power to the United States. These exports are not trouble-free, however. The people of North Dakota have objected to what they feel is subsidized Canadian energy while others have voiced concern about the environmental costs of hydroelectric power.

Another Canadian delegate elaborated on earlier expressed thoughts on Canadian nuclear power by expressing his country's interest in exporting nuclear energy to the United States. The delegate noted that the United States is currently not building nuclear plants and that, in any case, environmental restrictions on nuclear construction are not as great in Canada as they are in the United States. This delegate also said that he feels that criticism of the Canadian hydroelectric power industry as "subsidized" is unjustified.

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During the course of the ensuing discussion, the same Canadian delegate talked about the costs to Canadians of their various energy options: hydropower presents a threat to the environment and nuclear power poses the threat of an accident.

It was suggested by an American delegate that the new Administrator of the BPA and the new Minister of Energy, Mines and Resources meet to improve the bilateral energy relationship and pursue greater cooperation between the United States and Canada.

The last area covered in this discussion was prompted by a question from a Canadian delegate who asked if there was concern in the United States about being tied into the Canadian energy grid. An American delegate answered by saying that a contract with British Columbia on hydropower was approached in the same manner as a contract with a supplier in a neighboring U.S. State. He did say, however, that there was a little more apprehension about contracts with a foreign supplier in the areas of oil and natural gas.

Alternative Energy Sources

A Canadian delegate turned the discussion to the issue of alternative energy resources by asking if the U.S. Government had published any studies lately on this topic. An American delegate responded by saying that while he believed there was such a study some years ago, the current administration appears to have little interest in alternative energy. He also expressed the frustration that some American policymakers have in trying to get their government and the American public focused on the need for alternative energies. Both American and Canadian delegates seemed to agree on the need for both countries to recognize the instability of Mideast oil supplies and to concentrate on greater cooperation between Canada as a supplier and the United States as a consumer.

Superconducting Super Collider

The discussion was opened by an American delegate who explained the fundamentals of a Superconducting Super Collider (SSC). An SSC would be the world's largest particle accelerator. A proton-proton collider would be the highest energy accelerator in the world with an energy of 40 trillion electron volts. U.S. Secretary of Energy John Herrington announced administration approval for the construction of the SSC in January of this year. For fiscal year 1988, $25 million has been requested for research and development and an additional $10 million for actual construction.

The Department of Energy has said that cost-sharing and international participation and cooperation are desired for the project. However, the Invitation for Site proposals states that "the site must be entirely located in the United States of America". Such a requirement precludes, it seems, the option of considering proposals which contain a transborder site with Canada.

A Canadian delegate was prompted to ask if the restrictions on foreign participation could be lifted if Congress so desired. The American delegates all seemed to agree that it was worth considering. A U.S. delegate suggested, in the meantime, that the Canadians not delay in submitting a proposal for those portions of

the SSC that they are clearly allowed to participate in—specifically, financing, hydroelectric power, and scientific and technological expertise.

The Canadian members of Committee II agreed to write the Minister of State for Science and Technology to urge the Government of Canada to express to the United States its strong interest in participating in the construction and operation of an SSC and that it be located on or near the United States-Canadian border.

MSAT

A Canadian delegate began the discussion of the Mobile Satellite (MSAT) by outlining the point of contention between the United States system and Canada. He said that in 1982 the two countries agreed to share a spectrum on the 806–890 MHz ban for use by the proposed mobile satellite system to provide data and voice telecommunications service. In Canada channel 79 was cleared without compensation to the private sector. To date, however, the spectrum in the United States has not been cleared as Canadians felt assured it would be.

Canadians, it was pointed out, view MSAT as a major part of their space program. The Canadian Department of Communications has signed an agreement with Telesat Canada, the domestic communications satellite monopoly, to implement the project. Telesat Canada said it will spend approximately $200 million to build the necessary satellite and ground stations. The Government of Canada will invest about $40 million for research and development costs and has agreed to lease about $100 million in MSAT capacity for government use.

Canada holds the view that the agreement to clear the spectrum was a binding one. The U.S. Government has told the Canadians that the Federal Communications Commission (FCC), the agency responsible for the decision not to clear the spectrum, is independent and therefore cannot be forced to accommodate the needs of MSAT.

The Canadian delegate who had described MSAT said that the fundamental issue is not who will clear what spectrum but rather one of trust between the two nations. If the MSAT issue is not resolved, he said, there will be a feeling in Canada that the United States is not a reliable partner.

Space Station Cooperation

The United States and Canada are in the midst of negotiations on Canada's long-term participation in the space station project. Canada plans to contribute a "Mobile Service System," consisting of an advanced remote manipulator system and associated hardware, at a cost of at least $500 million.

The discussion of Canada's long-term participation in the U.S. Space Station project was a brief one. Two Canadian participants expressed their concern that Canada may be drawn into a military program without its express approval. They both said that they hoped that increased Department of Defense interest in the Space Station would not mean that Canada would inadvertently end up contributing to the militarization of space.

Other concerns of Canada include: ensuring that Canada has a role in managing the MSS once the Space Station is in orbit; ensuring Canadian access to the laboratory modules and platforms contributed by the United States, Europe, and Japan; and, ensuring that channels exist through which Canada can raise at the governmental level any problems that might arise in this cooperative venture.

A U.S. delegate indicated that, while the space station project was intended to be a civilian endeavor, the United States could not guarantee that it would not be used for national security purposes. American delegates said that they appreciated the Canadian perspective and would take their concerns back to Washington.

Oil Import Fee

The discussion of the possibility of an imposition of a fee on imported oil by the United States focused on the need for the North American countries to work together in the area of energy self-sufficiency. To that end, the Canadian participants suggested that an oil import fee by the United States was counter-productive and that it would make more sense for both countries to take advantage of their already cooperative relationship in the area of energy and further expand it. They pointed out, as well, that their country is one of the largest suppliers of oil to the United States, having exported some 790,000 barrels per day of crude oil and refined products to the U.S. market, an amount equal to 13.6% of total annual U.S. oil imports.

Several of the American delegates concurred with this view and added that it was unwise for the United States to continue to rely so heavily on Mideast oil while restricting the flow of Canadian oil by the use of tariffs. An American recalled Canada's objections to the small differential petroleum tax contained in the Superfund bill passed by Congress last October, which taxes U.S. crude at 8.2 cents a barrel and imported oil at 11.7 cents a barrel.

Discussion then turned to the House of Representatives approval of the Omnibus Trade Bill, H.R. 3, which, while amending the Export Administration Act to expand present statutory restrictions on exports of North Slope crude oil, has an exception for exports to adjacent countries in exchange for the same quantity of oil exports from that country to the United States. It was noted that an amendment in the House-passed version of the trade bill was accepted that was designed to ameliorate the effect on exports to Canada, but it does not appear to change the barrel-for-barrel requirement. The Canadians expressed the concern that this provision reverses the reciprocal basis upon which Canada decided to permit exports of its oil to the United States.

A U.S. delegate spoke briefly about the political pressures in favor of an oil import fee: namely, a serious budget deficit and the economic difficulties in the oil producing states of the Southwest. He also pointed out the strong objections to the imposition of this type of tax in the Northeastern States.

Canada's Exploration and Development Incentive Program

Earlier this year the Government of Canada announced a new program to assist the oil and gas industry. Known as the "Canadian Exploration and Development Incentive Program," it is, according to a Canadian delegate, an unabashed jobs program. The program will provide approximately $350 million (Canadian) a year in direct assistance to the industry by means of "flow-through" shares. The final cost may be higher as it does not include the loss in tax revenue from investors' use of flow-through shares and has no time limit. The program is designed to assist primarily the small- and medium-sized companies that are having the most difficulty in today's market by attracting more investors for exploration and development projects.

An American delegate said that he expects little objection to this on the part of the United States as our own country is considering similar programs to aid the domestic oil and gas industry. However, another United States delegate suggested that the program somewhat complicates free trade. While acknowledging the motivation behind the program, the U.S. delegate cautioned that the fact it provides Canadian exporters with an advantage may result in some offsetting United States action.

A Canadian member closed the discussion of oil and gas issues by commenting on the controversy resulting from the takeover attempt of Dome Petroleum by Amoco. He explained that Canadians of all political stripes feel strongly that their industry should not be foreign owned or controlled.

FERC Ruling on Canadian Natural Gas

Late last year the Federal Energy Regulatory Commission (FERC) issued Opinion 256 which mandated, in essence, that Canada adopt a pricing structure for its natural gas that is the same as the U.S. domestic rate design. As evidenced by the comments made by the Canadian delegates, this decision has provoked considerable outcry in Canada and is expected to be challenged in court. A Canadian member stated what appeared to be the universal opinion within their delegation when he said that the issue is one of sovereignty—Canada feels that the FERC is forcing Canada to follow United States rules.

A U.S. member said he did not feel comfortable defending the FERC decision as he felt that Canada had a just complaint. He did note, however, that the opinion was subject to a re-hearing, that it can be amended, and that it can indeed be challenged in courts. He said that he thought many were sensitive to the sovereignty issue but that FERC's motive was in "leveling the playing field" in natural gas and that it thought that it would be an unfair market without a restructuring of the Canadian pricing system.

A delegate from Canada remarked that it was odd that the United States should ask Canada to deregulate but that, when it does so, the United States objects through this type of FERC ruling.

Some thought was given by both delegations to the suggestion that perhaps a treaty on interstate natural gas pricing would be better than individual contracts on purchases.

Defense Policy and Sovereignty in the Arctic

Committee II combined into one discussion the issues of Arctic sovereignty and Canadian security and defense policy.

On September 10, 1985, Ottawa claimed all waters between the vast archipelago of Canadian Arctic islands as internal waters of Canada, subject to full Canadian sovereignty. The government drew straight baselines around the perimeter of the Arctic islands, some of which traverse substantial distances between these islands. The Canadian action was spurred by public reaction to the August, 1985, voyage of the U.S. Coast Guard icebreaker *Polar Sea* from Thule, Greenland, to Alaskan waters through the Northwest Passage. The controversy over Arctic sovereignty is not new, having earlier been sparked when the supertanker *Manhattan* attempted to make the passage 18 years ago. The U.S. Government position is that there is no basis in international law to support the Canadian claim of sovereignty over Arctic waters.

The Canadian delegation was unified on the issue of sovereignty in the Arctic. Particularly at a time when talks to establish a free trade area between the United States and Canada are accelerating, sovereignty was said to be an increasingly important and sensitive issue for all Canadians.

Canadian arguments relied heavily on what was viewed as a strong, if not impregnable legal position taken before the International Court of Justice. In 1970, the liberal government of then Prime Minister Pierre Trudeau abandoned efforts before the ICJ. However, the current government has reversed that policy and intends to vigorously pursue the issue before the Court. Canadians were described as strongly supportive of international law. It was felt by some participants that a decision in favor of Canada at the ICJ would be counter to U.S. interests and that U.S. intransigence on this issue would weaken the defense of the free world. Furthermore, if the ICJ ruled that Canada did not have sovereignty over the Arctic, the Soviet Union would gain an advantage, not the United States.

One Canadian participant went so far as to say that, had the Arctic sovereignty issue been settled years ago, Canada's natural gas reserves in the Arctic could have served as a secure source of energy for Western Europe. This would have precluded the need for Europe's decision to rely, in large measure, on the Soviet Union for natural gas; a judgment with which the United States took great exception.

In the Canadian view, U.S. concerns are unfounded that acceptance of Canadian sovereignty over Arctic waters would set a dangerous precedent for other areas, including waterways adjacent to Indonesia and the Aegean islands. Given the icebound nature of the Arctic waters for 10 months out of the year, it was a unique and incomparable situation. One participant recounted Foreign Minister Joe Clarke's comment to Secretary of State George Shultz that one cannot walk across the Aegean Sea.

There was said to be a common concern among Canadians that the sovereignty issue is linked to security in the region. Canada, it was maintained, has the largest undefended border in the world. Canadians argued that U.S. recognition of Canada's sovereignty in

the Arctic would facilitate a more cooperative security relationship between the two countries. Both the Great Lakes Commission and the Permanent Board of Defense have been models of cooperation, with NORAD and the DEW line evolving from the latter. It was argued that the United States should realign its threat assessment and focus more attention on Soviet facilities in Murmansk, rather than preoccupying itself with the Philippines or the Persian Gulf. From a global perspective, it is in the U.S. interest for Canada to preserve and protect sovereignty in the north.

A Canadian "Defense White Paper" (see Appendix), coincidentally released during the meeting, formalized a decision by the government to procure 10–12 nuclear powered submarines, in part to enforce Canadian Arctic territorial sovereignty. The goals of the White Paper are peace, security, and protection of sovereignty. Specifically, these goals are to be achieved in the Arctic by adequate surveillance and control. However, the decision to acquire nuclear submarines, in part for this purpose, was supported by some Canadians and opposed by others. One participant felt that the submarines would bolster Canada's case before the ICJ, but that the projected $7.5 billion cost was too high a price to pay.

The views of the U.S. delegates on Committee II were generally unified on both the sovereignty and security issues raised by Canadians. U.S. participants considered the two issues linked to each other. Some Canadians shared this view, others did not.

The planned acquisition of nuclear powered submarines by the Canadian Navy at a cost of $7.5 billion was questioned by several U.S. participants. It was argued that costs associated with refitting and harboring the submarines would roughly double their real cost over the course of the 15 year procurement period. It was noted that this was an amount equivalent to Canada's share of NATO costs over the same period.

The U.S. side also questioned what, if any, advantage was to be gained by acquiring the submarines. First, they could not effectively "show the flag" in the Arctic, given their subsurface mode of transit in the region. Second, it was asked if Canada would really sink an American vessel in the region because of disagreement over the Canadian definition of sovereignty. There was no definitive response to this question. Third, deployment of Canadian attack submarines in the Arctic was not considered a useful strategy against a Soviet threat. The Soviet Typhoon Class submarine carries ballistic missiles with a range of 10,000 kilometers, enabling their launch beyond the area of the Arctic claimed by Canada. Fourth, the submarine procurement would divert substantial resources away from Canada's NATO commitments in Europe. One U.S. participant felt funds could be better invested on new surface ships such as frigates and on preserving Canada's NATO obligations to Norway, rather than on procuring attack submarines that serve only a domestic political purpose.

U.S. participants were concerned with the precedent that would be established by acceptance of the Canadian sovereignty claim. It was felt that endorsing the claim might encourage other countries to make similar claims over international waters, U.S. access to which is essential to the security of the United States and the West. Furthermore, U.S. participants did not accept as a forgone

conclusion the Canadian perception that the ICJ would necessarily rule in favor of Canada on the Arctic sovereignty issue.

A U.S. participant objected to the baselines drawn in the Canadian sovereignty claim arguing that some of the boundary lines extended distances up to 99 miles between islands, and in many cases were over 50 miles between land masses. This was considered a large leap beyond propriety. Acceptance of this, it was felt, would encourage nations not nearly as friendly to the United States as Canada to do likewise, thereby endangering the free world.

A U.S. participant questioned the emphasis placed on this issue and criticized the anemic response of Canada to the needs of NATO, and to threats to the Persian Gulf. Canadian participants responded that Arctic sovereignty was an important issue to Canadians, and that Persian Gulf security was not.

Several U.S. participants emphasized the importance of resolving the issue prior to both ICJ consideration of the matter and Canadian procurement of nuclear powered submarines.

It was agreed by both Canadian and U.S. participants that a mutually agreeable solution to this problem, reached expeditiously, is of great importance to both sides.

Cruise Missile Testing

Under a 1983 agreement which was recently renewed and extended until 1992, the United States conducts up to six tests annually of unarmed Cruise Missiles over the Northwest territories and Alberta.

Some Canadian participants were favorable to United States testing of the Cruise Missile in their country, justifying it on the basis of Canada's reliance on the United States for much of its defense. Despite two test failures and associated concerns, it was stated that the Government of Canada remained supportive of the program. Others suggested that polls indicated that Canadian public opinion was largely against testing and cited a strong linkage between attitudes about nuclear free zones and both the arms industry and arms control. New Zealand Prime Minister David Lange's view that nuclear weapons are not protective devices was mentioned, as was the opinion that a government's position on defense issues is driven by the extent of influence of weapons manufacturers in a country. It was highlighted that Canada intentionally had a very small defense industry, despite many opportunities for enlargement since World War II. Conversely, the United States was viewed as a major arms exporter, which, in addition to possible failures in arms control, could lead to increasing criticism of the United States. This, it was felt, could adversely affect attitudes on Cruise Missile testing.

The U.S. participants expressed appreciation for Canada's willingness to allow Cruise Missile testing. One U.S. participant suggested that public polling results are not the best ingredient to producing good military doctrine.

Arms Control

The United States, the Soviet Union, and both sides' respective allies have been engaged in arms control negotiations since the late

1960's. Post-war Canadian governments have played leading roles in promoting arms control. This 28th Canada-U.S. Interparliamentary meeting took place at a time when most observers were cautiously optimistic that an arms control agreement on intermediate range nuclear forces (INF) might be achieved in 1987.

The range of Canadian participant views approximated the spectrum of U.S. participant attitudes on this subject. One view expressed by the Canadian side was that Soviet leader Mikhail Gorbachev has succeeded in fragmenting the Atlantic Alliance and has inflicted a public relations defeat on President Reagan.

Canada, it was felt, can contribute to efforts to win back Western European public opinion by calling for an Arctic nuclear free zone north of the 70th parallel. Such a zone would encompass territory of several countries including Canada, the United States, and the Soviet Union.

Consistent with this theme, the view was expressed that nuclear war was the only real threat to Canada. The public expects its government to respond to this threat and the best approach is a multipartisan commitment to arms control and disarmament. National security can best be achieved by disarmament.

Another Canadian perspective was that unilateral disarmament was dangerous. Pursuing arms control and preserving national security were seen as important objectives. Acceptance of arms control was conditioned on the need for balanced and verifiable agreements.

U.S. participant views were similarly varied. One participant argued that arms control had not been embraced early in the Reagan administration because of the need to shore up U.S. defenses after years of neglect. Having strengthened U.S. defenses, the opportunities for successfully concluding an arms control agreement were very good. However, it was felt that there are those in Congress who for partisan political reasons do not wish to conclude an arms control agreement until after the next Presidential election. Contrary to some people's thinking, arms control initiatives of the present administration were not in response to public support for a nuclear freeze. Rather, they followed logically behind a rebuilding of U.S. defense forces.

Another U.S. participant indicated that the majority party leadership in Congress was in favor of concluding an arms control agreement immediately and did not support delays for partisan political reasons. It was emphasized that only after the growth of grassroots supported for a nuclear freeze was the administration persuaded to work for arms control. Prior to the application of this pressure, divisions within the administration had forestalled efforts in this area.

Despite the fact that an INF agreement was the "smallest chip on the table" (accounting for a small reduction in the total number of warheads), it would be an important achievement in both substantive and political terms. Garnering public support and winning ratification for such an agreement would be easier on President Reagan's "watch" and would facilitate the acceptance of future agreements during subsequent administrations.

On the subject of the Strategic Defense Initiative (SDI), one U.S. participant insisted that this initiative was not a bargaining chip

that should be negotiated away. Furthermore, anti-satellite (ASAT) testing constraints and efforts to hinder SDI development are unilateral measures that fail to take into account the fact that the Soviet Union is itself actively pursuing these technologies.

Another U.S. participant countered that SDI should be used as a bargaining chip in negotiations with the Soviets. Had it been used at the Reykjavik talks, a 50 percent reduction in Soviet ICBM's could have been agreed to. To continue to develop SDI is to ensure that the Soviets will either develop their own "star wars" capability, or build larger numbers of offensive nuclear delivery systems. Furthermore, SDI may be intended for defensive purposes, but its offensive potential will provoke the Soviets to preemptively strike the United States rather than risk losing satellite early warning capability. This participant felt that both sides should be banned from developing SDI. It was also indicated that Congress has four times in as many years banned U.S. ASAT testing.

Multilateral Issues

CENTRAL AMERICA

The variety of opinions on U.S. policy in Central America offered by the Canadian delegates is a good indication of the diversity of thought on this issue. One delegate from Canada mentioned this but suggested that, despite the differences, there is a broad undercurrent of consensus in Canada on Central America when it comes to the cause of the instability in the region. As the Canadian Foreign Minister has said, the problems are rooted in the social and economic inequalities seen in those countries.

The Canadian delegate continued, saying that U.S. policy that treats Nicaragua like an enemy may be a self-fulfilling prophesy. Another Canadian delegate agreed with this assessment and stated further that any future Contra action resulting in the death of a Canadian in Nicaragua would harm U.S.-Canadian relations. The Canadians also asked about the possibility that the ceasefire plan that has been put forward by President Arias of Costa Rica would be adopted by the U.S. administration.

Some Canadian delegates felt very strongly that expansion of communism in the Western Hemisphere must be stopped. In the case of Nicaragua, one delegate said that the Soviet Union is responsible for the form of government in that country and that it seeks to establish a base in Central America. Another Canadian delegate agreed that communism in the Western Hemisphere is a very grave threat but suggested that strong economic measures are favored over military intervention.

An American delegate responded by agreeing that economic measures are preferable to military actions but that the United States seems too often to be standing alone when it imposes economic embargoes on countries like Iran, Libya, and Nicaragua.

The discussion then turned to the role of Canada in the world, with an American delegate asking his Canadian counterparts how they viewed that role. A Canadian delegate answered by saying that his country is not a saber-rattler, and that it takes an active interest in ending apartheid in South Africa, in advancing the cause of Soviet Jewry, in the economic development of the Caribbe-

an, and in the political stability of the Western Hemisphere. Canada's well-known role in international U.S. peacekeeping efforts was mentioned, as was Canada's involvement in the Commonwealth's "Eminent Persons Group" which seeks a peaceful resolution of the violence and injustice in South Africa.

REFUGEE ISSUES

The discussion devoted to refugee issues was begun with an explanation of Canada's response to enactment of immigration reform in the United States. Particular emphasis was put on the new asylum policy in Canada which replaces the previous open policy of admission and non-deportation of asylum seekers. Henceforth, all asylum seekers will be evaluated on a case-by-case basis. Additionally, all refugee claimants coming from the United States will now remain in the United States pending a Canadian immigration hearing.

There was initial strong disagreement among Canadian delegates as to the success or failure of prior immigration policy, but all agreed that recent changes had been prompted by the change in U.S. immigration law.

Several American delegates inquired of the Canadians as to popular sentiment is in their country with respect to immigrants. One Canadian delegate noted that, like the United States, Canada is a nation of immigrants and therefore more willing than many other nations to take in new populations.

Another Canadian delegate said that the key issue for Canada in its immigration policy is consideration of what the country can absorb and where it can absorb it. This delegate concluded the discussion of refugee policy by remarking that refugees can be a political problem or a political opportunity.

COMMITTEE III—FISHERIES, ENVIRONMENT, AND TRANSBOUNDARY ISSUES

Committee III was chaired by Fred McCain and James Oberstar. In addition to Mr. McCain of the House of Commons, the Canadian delegation was represented by C. William Doody and Richard Stanbury of the Senate and Bill Blaikie, George Henderson, Ken James, Stan Darling, members of the House of Commons. United States members included, in addition to Mr. Oberstar, Congressmen Les AuCoin, Peter DeFazio, John Miller, and Senator Ted Stevens.

On opening the deliberations of Committee III, a U.S. delegate cited the progress that had been made on several issues over the last few years, the importance of these bilateral parliamentary meetings, and the need for frank discussions on the lively concerns of the two delegations. In expressing hopes for a successful meeting, the American delegate quoted former Canadian Prime Minister Meighan, who said in 1937 on the occasion of a U.S.-Canadian conference that "We are not in the same boat, but we are surely in the same waters." The American delegate concluded that the task of these meetings was to try to steer the two boats in the same direction on the tough issues of the management and use of resources and the environment.

ENVIRONMENT

ACID RAIN

Canadian concern over acid rain has been a serious bilateral problem for nearly a decade. In order to manage our bilateral differences over this issue as constructively as possible, in 1985 President Reagan and Prime Minister Mulroney appointed Special Envoys to assess the international environmental problems associated with transboundary air pollution, and recommend actions that would help solve them. The President and the Prime Minister endorsed the Joint Report of the Special Envoys in March 1986.

The Special Envoys proposed a long-term program to address this issue even as important differences between the two countries remain unresolved. They recommended (a) a major cooperative research effort directed at several areas of special value to decision makers in guiding the development of environmental policies; (b) enhanced bilateral consultation and information exchange; and, (c) a review of each country's legislation and regulations. Most importantly, they recommended that the United States carry out with industry a 5-year, $5 billion control technology demonstration program to establish the more cost-effective technology needed to underpin an acid rain control program.

A Canadian delegate opened the discussion by relating a recent conversation with a Member of the U.S. Congress who said "you preach to us on acid rain but what have you done?" That

was a fair question and the Canadian delegation wanted his American counterparts to know precisely what Canada has done.

The delegate reported that Canada has passed considerable legislation. He noted in particular that by September 1988 auto emission standards in Canada will be in line with those in the United States with the exception of the State of California. Canada also has worked to start to clean up its smelters. A $150 million program has been initiated at Ontario Hydroelectric, and the Acid Rain Committee of the Canadian Parliament has worked with the Noranda Mines and Inco to help initiate programs to reduce emissions. The Federal Government of Canada has also signed agreements with five of the seven provinces east of Manitoba to reduce emissions by 50 percent by 1994. Ontario has agreed to a 60-percent cut, and Quebec to a 40- to 45-percent cut. Such a program has proven more difficult for New Brunswick and Nova Scotia but the delegate assured members that efforts with these provinces would continue.

The Canadian delegate also expressed the hope that recent statements by the Reagan administration represented a change in U.S. attitudes and would be followed soon by concrete actions. The Canadian Acid Rain Committee is coming to the United States in June 1987 to press its case with officials in Washington. The delegate concluded his presentation by saying the Canadian Government has taken concrete actions, and now is the time for the United States to get on the bandwagon.

A second Canadian delegate expressed the view that to-date there had been a great deal of change in U.S. rhetoric on the issue of acid rain which evidences greater recognition of the problem. But he wondered how satisfied Canada should be with what the United States has done, how helpful the U.S. role has been, and how seriously committed the United States is to a program to achieve real acid rain abatement. Clean coal technology is not an answer. He noted that we are not just looking at dead lakes, but at serious economic, social, and health problems. He suggested that the social and economic costs of not doing something were high and would grow higher with inaction. The maple sugar industry in Ontario and Quebec, once producing a value of $12 million a year, is lost forever. The long-term economic costs must be factored in. Canada is committed to a 50-percent cut by 1994. Four million tons of acid rain from the United States come to Canada each year, and Canada wants the United States to cut that by 50 percent. Canada wants action, not further studies.

A third Canadian delegate wanted to modify the record regarding New Brunswick. New Brunswick does recognize the problem of water pollution, and coal farming is carefully monitored. In some cases in New Brunswick when the costs of control on plant emissions are too high, it has been cheaper to move the plants and build them anew. New Brunswick simply does not have the funds for a large program and it will need funds from the Federal Government. In some cases, it was noted that New Brunswick is waiting for research to show the best and most effective way to act, involving experimentation with limestone and the use of scrubbers or a fluidized bed. The delegate concluded by noting that neighboring

Nova Scotia, with the second highest power rates in Canada, also has little maneuvering room.

An American delegate interjected that West Virginia and Kentucky are like New Brunswick. He noted that acid rain was a global problem and needed global understanding. Many Americans, and perhaps a majority of the U.S. Senate, were not yet convinced that we should spend a lot of money without a more thorough and global commitment to deal with the problem.

A second American delegate said acid rain could be the most pervasive, destructive force man has unleashed and its effect may be irreversible. There may not be enough limestone to deal with the problem. The clean coal technology in the United States is a step in the right direction and now the United States has embarked on a multiyear $500 million program, with $55 million available this fiscal year and another $200 million planned for fiscal year 1988. It is not just the administration which wanted to proceed slowly on this matter. Congress was slow itself and would not even pass a $6 million amendment in 1979 to provide the Environmental Protection Agency with funds for this matter.

The American delegate indicated that there is an educational process going on in the United States and that Canada's efforts on acid rain have had an enormous impact on the United States and attitudes there. Canada's program has produced a dramatic effect on the 27 million tons of SO_2 which have been put into the atmosphere each year. Reduction levels for the United States will also have to be substantial to affect improvements.

There is a realization among many in the U.S. Congress, the delegate added, that the United States has to do more. New legislation will be introduced in June in the House of Representatives calling for a 10-million-ton reduction in SO_2 levels by 1997 and a 4-million-ton reduction in NO_x levels by that date. Scrubbers will not be mandated in the new bill but will be recommended. Coal switching is also permitted. The key to this bill is the creation of a national trust fund to be financed by fees to be paid by utilities, but a way needs to be devised to compensate those utilities which have already acted to reduce emissions so they are not paying twice. A similar bill will also be introduced in the Senate. The delegates concluded by wondering whether the U.S. administration will embrace such a comprehensive approach to this problem so that it can become law. The answer to that question is not clear. Another American delegate indicated that whatever the merits of such legislation, the coal states in the United States will undoubtedly oppose it.

A Canadian delegate agreed with the observation that acid rain is a global problem, but he said it was essential to start somewhere to deal with the issue and to gain some momentum for a global approach. He mentioned that a "30 percent Club" of nations existed, but that the United States was not, but should be, a member. The environmental problems associated with acid rain will grow exponentially if action is not taken.

Another Canadian delegate agreed that acid rain was a world problem but that in North America it was a more compact problem. Impure air has caused grave problems; the soil is destroyed too. He indicated that we do not have the time and we cannot re-

verse what has been done. We either go ahead or we go backward. We are not just looking at plants today and trying to restart growth; we are looking at soil that cannot sustain plant life tomorrow.

A Canadian and an American concluded the discussion with brief comments. The Canadian delegate observed that the costs of doing nothing on acid rain were significantly greater than the costs of doing something about it. The American delegate said Americans were not opposed to action, but they wanted a timeframe that was realistic and as a target date, 1994 may not be achievable. Given the problems in coal producing and coal consuming areas, slow and deliberate action was needed.

TOXIC WASTE

On October 28, 1986, Administrator Lee Thomas of the EPA and Canadian Minister of the Environment Tom McMillam signed a United States-Canada Agreement on the Transboundary Movement of Hazardous Waste between the two countries. The agreement was concluded in recognition that there is a significant legitimate trade in hazardous waste across the border and that procedures should be agreed upon to harmonize each country's policies.

Under the Agreement, both countries will notify each other of proposed exports in advance of the shipments. The receiving country will then have 30 days to object to the terms of the notice. If no objections are heard by the exporting country during that time, the receiving country is deemed to have tacitly consented and the shipments will be allowed to commence. Hearing no objections of the receiving country, the exporting country will issue an acknowledgement of consent document to the exporter, and a copy of this consent must be attached to the manifest for each shipment crossing the border.

Under the new U.S. hazardous waste export regulations which went into effect on November 8, 1986, the EPA has received approximately 340 notices of shipments of U.S. waste to Canada, mostly for disposal in two major facilities in Ontario and Quebec. The implementation of the Agreement is now going smoothly, after some initial difficulties in processing the notices, mostly on the Canadian side. The EPA expects this Agreement will continue to serve as the mechanism to track hazardous waste shipments across the border while not hampering the legitimate disposal of hazardous waste through exports.

The Canadian delegates expressed the view that while an agreement was in place, no targets have been established and they wondered how the Agreement will be fleshed out and over what period of time. They also were concerned about whether the United States would seek simply to seal the toxic waste in place or to remove it. The Canadians' preference was for removal and hoped that a new Dutch technique for removal of toxic waste might provide a useful approach for the elimination of toxic waste in populated or other sensitive regions.

ENERGY DEVELOPMENT IN NORTHERN ALASKA AND AMAULIGAK

U.S. and Canadian firms are looking closely at exploration and development of oil and gas resources in Northern Alaska and the Beaufort Sea, two areas which present special environmental considerations.

On April 20, Secretary of the Interior Hodel made public a report recommending that Congress open the coastal plain portion of the Arctic National Wildlife Refuge to oil and gas leasing. In making his announcement, Hodel said that oil and gas activities can be conducted on the coastal plain of the Arctic refuge in a manner consistent with the need to conserve the area's environmental and wildlife values.

One of the Canadians' chief concerns about drilling in the Refuge is the danger of harm to the Porcupine caribou which use the area for breeding. The United States believes these concerns will be alleviated, in part by the recently negotiated agreement to protect those caribou.

The Canadian delegates also expressed concerns that they were not consulted fully on the Hodel report, and many Canadians feel the Hodel study minimized Canadian concerns and adopted a strong development position in the expectation that Congress would modify it.

On the United States side, there are concerns about Canada's plans to drill in the Beaufort Sea in an area called Amauligak. Oil produced in this region might have to be barged around the north coast of Alaska. The United States has requested formal consultations to discuss this prospect and expects to have those discussions in the fall of 1987. The United States feels it has assurances from the Canadian Government that no oil will be shipped from Amauligak before those consultations.

DETROIT MUNICIPAL INCINERATOR

The State of Michigan, under delegated authority from the EPA, has issued a permit to the city of Detroit to build the world's largest municipal incinerator. Construction has begun and the facility is scheduled to begin operating in 1989. Inadvertantly, an EPA review early in the permit granting process did not specify the use of the best available control technology for this incinerator. Consequently, the facility will not control emissions of some toxic materials, e.g. dioxin, which are a by-product of burning municipal waste.

A Canadian delegate said he understood that Detroit faced a major waste disposal problem, but that the incinerator must be completed with the best technology or else the Essex-Windsor area in Ontario would face enormously increased air pollution. Ontario authorities have tried several different approaches to deal with the potential problem, including law suits and attempts at negotiation with Detroit authorities. The delegate indicated that Windsor authorities would be receptive to a plan whereby Detroit would take some of Windsor's waste, Canada would help with the costs of putting newer and better technology into the new incinerator, and Canada would pay user fees. The delegate saw an opportunity to do something right and felt it was important that it be done.

An American delegate said the potential Windsor offer added a new element to the situation which was useful and important and could help move this problem toward a solution. The delegate regretted that the EPA did not comment after its first review of the planned incinerator and therefore the EPA, in the eyes of the court, could not force Detroit to act differently now. With $20 million, the technology of the incinerator could be upgraded, and it would be hoped that, in the context of the national dioxin study being issued this fall, there might be a chance for movement.

A Canadian delegate suggested that Detroit may have rushed ahead with the project to get federal grant money, and he hoped that Congress might act to extend the period so that improvement in the project could be made. In a project costing more than $400 million, $20 million in added technology was reasonable and should be possible. The Canadian delegate also saw potential violation of the Great Lakes Air Quality Agreement if improvements are not made.

An American delegate concluded the discussion by indicating that it was worth looking into a time extension for the project and the possible involvement of Windsor.

Transboundary Issues

Great Lakes Water Levels

Water levels in the Great Lakes have fluctuated widely over the years. Current conditions—abnormally high water levels—are due to heavy rainfall and slow evaporation in the recent past, but some experts believe that these high levels may be normal over a wider span of geologic time.

On August 1, 1986, the United States and Canadian Governments requested the International Joint Commission (IJC), a binational group established by the 1909 Boundary Waters Treaty, to examine the causes and possible remedies for lake level fluctuations. In the meantime, while it pursues its study, the Commission has taken steps to increase outflows from the lakes to the highest possible rates consistent with protecting downstream interests. In addition, in a letter dated November 14, 1986 in response to the August 1, 1986 reference, the IJC suggested further measures that governments could consider to deal with the immediate effects of high water levels.

A Canadian delegate opened the discussion by noting that the water levels which are 3 feet above normal threaten severe damage of public and private property, especially for the middle lakes—Huron, Michigan, and Erie. The St. Lawrence Seaway and Lake Superior at the two ends of the Great Lakes system are regulated, thereby putting added pressure on the lakes in between. The delegate concluded that man-made diversions must be examined in the present situation. They were mentioned in the November 1986 ICJ letter and steps will likely be necessary to lower lake levels through increasing the rate of existing outflows. The Province of Ontario has particular concerns in this matter and will be a key actor in what is done. The Chicago diversion outflow should be increased in the view of many Canadians.

An American delegate expressed admiration for Canada's role and sensitivity on this issue and for Canadian efforts to withhold water entering Lake Superior to try to help in the process of stabilizing water levels there and restraining their rise. It was noted that the Great Lakes represents one-fifth of the world's fresh water supply and that Lake Superior represents over 50 percent of the Great Lakes water system, making it difficult to restrain its rise in recent years of high water levels. The delegate also noted that in 13 of the last 16 years there was above average rainfall, below average temperatures, less sunlight, and therefore less evaporation. The current situation, furthermore, may not be the worst. In congressional hearings, the U.S. Geological Survey noted three periods of much higher water levels over the past 2,000 years.

The American delegate said there is no pushbutton solution to the current situation. Any solution will require the concurrence of 10 States. Diversions are not the total answer. What may prove the most reliable course is simple managing and monitoring flows in the IJC and praying for sunshine. He noted that the IJC moves slowly and would need a spur to quicker action.

A Canadian participant noted the eroding northern shore of Lake Erie and the visible losses of land each year. He suggested that another look be given to the 25N Project on the Niagara River. Although that project, designed to prepare for far higher water flows in the Niagara, was considered so costly in the past, it may become necessary. We cannot rely, he said, on sunshine. Existing canals must take larger flows and some may have to be widened.

An American member responded that the Niagara project would be difficult for the United States and was politically unfeasible and too costly. The consequences downstream of the Niagara River project must be weighed in contemplating such action, and those consequences have in the past appeared to be enormous. Climatic cycles simply cannot be controlled, but he would support a new United States-Canadian study of the downstream consequences of a Niagara River project.

A Canadian delegate countered that cities and farms cannot simply be moved. He said that the Chicago Diversion, the Welland Canal, the Ogoki Diversion, the Long Lac Diversion, and the Black Rock Canal were all part of the solution to restraining high water levels and that the Niagara project could be a staged process to control downstream problems. With the extra water being put into the middle part of the Great Lakes system, man-made solutions will be needed. Canadian members also suggested that the Chicago Diversion could take more water and maybe the St. Lawrence Seaway could take more seasonally.

An American delegate questioned how much all these alternatives could realistically achieve. He indicated that more water could possibly be removed from the lakes in winter without damage to the banks or the fish.

A Canadian participant informed the American delegation that several prominent groups and individuals in Canada were seriously contemplating a scheme to take some Great Lakes water out west to Canada's agricultural heartland.

An American member concluded the discussion by stating that the U.S. efforts to restrain high water levels would be complicated by the 1937 Supreme Court decision which limited action without agreement of all States and parties affected. U.S. action could also be affected by the issue of possible compensation of property owners hurt by U.S. actions to control water, but the Office of Management and Budget refuses to support any such compensation at present.

GREAT LAKES WATER QUALITY AGREEMENT

Canada and the United States have a longstanding tradition of good cooperation on both water quality and quantity issues. The 1909 Boundary Waters Treaty makes provision for regulating the use of boundary waters and streams which cross the border. The treaty also provides that neither side will pollute boundary waters to the harm of interests on the other side. However, by the early 1960's, it became apparent that the Great Lakes had become polluted. In 1972, the United States and Canada negotiated the Great Lakes Water Quality Agreement (GLWQA) to clean up and protect the lakes. The Agreement, revised in 1978, testifies to the ability of the two nations to work toward common environmental goals.

Article X of the GLWQA stipulates that the two governments will conduct a "comprehensive review of the operation and effectiveness" of the Agreement after receiving the International Joint Commission's (IJC) third biennial report. The IJC published its report in March 1987. It presented 36 recommendations, many of which involve provincial, state, and local jurisdictions. Over the course of the next year, the United States and Canadian Governments will each consult with domestic interest groups to determine what changes need to be made to update the Agreement and deal with present problems, such as toxic chemical pollution.

An American delegate opened the discussion by mentioning the congressional hearings on this subject in the summer of 1986 which were designed to prod the IJC, force the Federal Government to respond, and obtain the input of environmental groups. The good news is that progress has occurred in Great Lakes' water quality. The bad news is the rate of progress and the need for a total ecosystem approach, not a substance-by-substance approach. Most scientists hired by the United States work on making the water cleaner, not looking to control and remove toxic sediments.

Toxics enter the Lakes from all media and are particularly difficult to remove: the 100–300 years flushing rate in the lakes means anything in the water system stays there for a long period. The Great Lakes contain the largest reservoir of PCB's in the United States and have over 800 contaminants which have been identified in Great Lakes waters. The toxics pathway is through sediments to fish food to fish to people.

The American delegate, to illustrate his point, related the experience of an Indian group on Lake Superior. The Akwesasne Indians have seen their land and water become so badly polluted that their economy, society, health, and way of life have been disrupted. Fish, the staple of their economy and their diet, became contaminated with mercury, myrex, PCS's, and many other persistent toxics. Pol-

lution destroyed their entire way of life. Fifty tribesmen fished for a living in 1976; only eight fish today. Tribesmen used to eat 20–30 pounds of fish a week; now they have intentionally stopped eating fish. And the dietary change from high protein to substituted carbohydrates has caused diabetes in many people. The tragedy was almost complete. This brief story helps to illustrate the gravity of the toxic problem and the need for greater sensitivity to it. Clearly billions of dollars will have to be spent to deal with it.

A Canadian delegate agreed that the ecosystem approach is important. A coordinated approach, a steady and unified course, is essential to dealing with the problems of the Great Lakes. On the Canadian side coordination must involve all levels of federal and provincial government. Today, the words are there but not necessarily the commitment to act.

An American member concluded that coordination was the key. A lot of groups are involved and the Great Lakes National Program Office in the United States has been set up to coordinate offices, focus efforts, and make operations more efficient. The United States needs more information on Canadian efforts and on the interdepartmental committee which coordinates federal and provincial activities.

MARITIME BOUNDARIES

The United States and Canada have four unresolved maritime boundary disputes. The two most important are in the Beaufort Sea, where there may be oil and gas in the large disputed area, and in the Dixon Entrance at the southern end of the Alaskan panhandle, where there is the potential for conflict over fishing rights in the disputed area. In addition, there are disputes concerning the boundary seaward of the Strait of Juan de Fuca, off the coast of the State of Washington, and in the Gulf of Maine, where a small disputed area remains even though the major part of the boundary was delimited in 1984 by a decision of the International Court of Justice.

The disputes in the Beaufort and in the Dixon Entrance result from a difference of opinion concerning the meaning of earlier efforts to delimit the boundaries. The Canadians believe the Alaska Yukon boundary should be extended into the Beaufort Sea in a straight line. The United States argues that the Alaska Yukon boundary was intended only as a land boundary: the maritime boundary should be drawn as an equidistant line. Similarly, in the Dixon Entrance, the Canadians argue that a survey line, the so-called A–B line, is the appropriate boundary line. The United States believes that that line was intended only to demarcate the extent of each country's land area, and was not intended to be a maritime boundary.

The U.S. position is that the United States does not recognize Canada's claim in the Beaufort Sea but that, because of the dispute, the United States is using special procedures, and the highest acceptable bids for tracts in the disputed area will be placed in an escrow account pending resolution of the dispute. The United States remains committed to a negotiated settlement of the

maritime boundary in the Beaufort Sea, but to-date the Canadians have not expressed an interest in beginning discussions.

The consensus of both delegations was that these border issues are not urgent issues in our bilateral relations and can be negotiated within the existing processes. The Canadians felt their case rested on history and that the United States wanted adjustments based on political and economic developments in areas beyond the 3-mile limit. These boundary problems were less important in past decades when less attention was given to the economic potential of the sea.

An American delegate raised the issue of the Strait of Juan de Fuca between Washington State and British Columbia. This area is not significant for fisheries, but there could be silver and zinc mineral deposits. There was a sense that the United States and Canada could reach an agreement on this matter by tying it in with other issues.

A Canadian delegate said that Canada does not want to relinquish what Canada considers its historic right. These issues were simply not relevant when we had a 3-mile limit. These issues are now in a discussion phase and it will take time to reach any consensus of compromise because United States-Canadian differences are real and our frames of reference are totally different. A Canadian delegate also mentioned the Dixon Entrance as a matter which was decided almost a century ago and questions why it comes up again today.

An American delegate expressed concern over Canada's unwillingness to discuss the Beaufort Sea issue and wondered if Canada would be willing to take the Beaufort Sea dispute to the International Court of Justice.

A Canadian participant said that the adjudicated Gulf of Maine dispute did not satisfy either side and wondered if the United States would abide by an International Court of Justice ruling. He noted that the United States had accepted the Gulf of Maine decision but more recently the United States has been haggling over rights in the one-sixth of the Gulf of Maine it did not get in the initital decision.

At the conclusion of the discussion, a Canadian brought up the issue of a boundary dispute off the Maine coast, involving Machias Seal Island. While most of the Gulf of Maine maritime boundary was determined by a decision of a Special Chamber of the International Court of Justice rendered in 1984, a portion of this boundary landward of the starting point from the Court's line remains to be determined. This portion was deliberately excluded from the mandate of the Court owing to a dispute over the sovereignty of Machias Seal Island and North Rock, two small inlets just south of New Brunswick's Gran Manan Island. A lighthouse has existed on Machias Seal Island since 1825.

While at present this situation is not creating difficulties, the Canadian delegate mentioned the existence of a bird sanctuary on Machias Seal Island which the Canadians control. They are regulating access to the sanctuary and turning back boats from the United States and Canada because of the 24-person guest limit on the island. The Canadian delegate saw it to be in both Canada's and the United States' interest to solve problems relating to Ma-

chias Seal Island and develop a mechanism to ensure equal and fair access to the sanctuary, either by agreement between Maine and New Brunswick or between Washington and Ottawa.

Fisheries

PACIFIC SALMON TREATY

The 1985 Pacific Salmon Treaty between the United States and Canada establishes a cooperative management system for the conservation and utilization of the salmon resource in southeast Alaska, British Columbia, Washington, and Oregon. The treaty was concluded only after 14 years of difficult negotiation. In its first 2 years the Commissions established by the treaty has had a reasonable degree of success in dealing with the conservation and allocation issues before it.

One issue not solved by the Pacific Salmon Treaty concerns the salmon which originate in the Yukon River. The treaty only promised that the United States and Canada would seek to negotiate an agreement dealing with the salmon on that vast river system.

An American delegate opened the discussion by stating that the Pacific Salmon Treaty Commission offered great potential for both sides but that the United States and Canada were approaching the appointment of Commissioners differently. On the U.S. side, fisheries managers were named; they are technocrats, and user groups provided technical advice to the U.S. Commissioners. The Canadians, however, name representatives of user groups directly to the Commission. This has meant that even when biologists on both sides agree on a course of action, the two sides can reach different conclusions. User group representatives, in the U.S. view, should be advisors only, and this would help achieve better decisions.

A Canadian participant countered that the Canadian Commissioners had technical expertise, and Canada has focused in the Commission on how a common resource could be managed and protected. The delegate indicated that Canada was not happy with arrangements on the division of the catch in the Yukon River and he hoped better understandings could be worked out.

An American delegate pointed out that the Salmon Commission was the product of 14 years of negotiations and that managers are better able to balance resource questions than are user groups which often have specific interests. Fish politics are tough and resource questions must be insulated from politics.

A Canadian member reiterated that fishery biologists and scientists are involved throughout the process. In the past, technical and professional managers in Canada had often ignored user groups as scientists and the civil bureaucracy controlled policy. This would not happen again. It was more likely that user groups will listen to the scientists than the reverse.

An American delegate disagreed and said that what Canada was doing was creating pressure on the United States from American user groups who would seek a similar role and that would not be the best for the resource use or for the operation of the Commission. The advisory level and the decision-making level should be separated.

A Canadian delegate said that he did not want Canadian scientists negotiating with American managers. User groups, he suggested, have traditionally been better negotiators. The herring presence in the Atlantic was also mentioned. The catch there today exceeds what the scientists said was possible. Scientists, in the Canadian experience, often will not adjust to realities.

An American member pointed out that policy should not be made on the basis of fish stories. Resources will be poorly exploited if United States users play a greater role. Canadian fishery departments do not control users. Tensions always exist between fishermen and scientists who look to the future and want limits and controls.

A Canadian delegate said that, despite the discussion, the Salmon Treaty benefits are becoming visible and there is a better understanding today of the need for conservation. It is essential to preserve the treaty and take the lumps from the users.

A second Canadian member countered some U.S. criticisms by saying managers are not political or value neutral and they will often have as much baggage as user groups. He also noted that user groups are predominant in many places in Canada and conceded that user-group oriented policies can obstruct problem solving although not necessarily in this case.

A Canadian delegate concluded that if the United States and Canada are appointing very different people to the Salmon Commission, the two governments might try to discuss this matter bilaterally. An American delegate ended the discussion by observing that the pressures are the same for Canada as they are for the United States. At present, he said the conservation groups hold the balance on the American side.

DEPLETION OF WEST COAST STOCKS

The United States and Canada share an interest in protecting North American salmon stocks from possible harvest by third countries in international waters off the North Pacific Ocean. In this regard, both countries worked together to sign a multilateral treaty with Japan in 1952 designed to prohibit the Japanese high seas salmon fishery from operating in areas with the highest concentration of North American salmon. This treaty, which established the International North Pacific Fisheries Commission (INPFC), was amended in 1978 and 1986 to provide greater protection for North American Salmon stocks.

In recent years, both the United States and Canada have expressed concern over possible salmon harvests by the growing squid driftnet fisheries of Japan, Korea, and Taiwan. Their fisheries use gear which is capable of harvesting salmon, and the Taiwan squid driftnet fleet was reported to have caught large amounts of salmon from 1983–85. Although all three countries have enacted laws designed to prohibit the harvest and sale of salmon caught by the squid fisheries, there is some evidence that those illegal harvests may have continued in 1986.

An American delegate opened the discussion and stated that this was less a United States-Canada issue and more the case of a common United States-Canadian interest in getting controls on

fishing ships from Taiwan, Japan, and Korea. These ships seek squid but they pick up salmon in the process. An American delegate asked what Canada would do internationally to pursue this issue.

A Canadian participant said there was total United States-Canadian agreement on this subject. Canada has taken the matter up internationally and will continue to do so. A recent Canadian parliamentary group was in Japan and discussed this issue with the Diet and with Japanese officials. The Canadians got a friendly hearing in Japan, but no answers. Another Canadian delegate said the driftnets should be banned.

An American member concurred, saying that driftnet policies had a bad effect on all life in the oceans because the plastics are chewed and cannot be digested. There is legislation in the U.S. House of Representatives on the driftnet problem.

An American member raised the whaling issue and said the United States obtained Japan's attention by threatening sanctions. There is now an international whaling agreement, except for Norway, which apparently catches whales for research purposes but still wants to preserve for itself a large catch.

A Canadian delegate then brought up the seal which is a protected species when, in fact, there is a serious need for seal population control, not elimination. Their large numbers are hurting northern parts of Canada and causing biological and economic problems. Seals give parasites to fish who feed on the ocean bed; they also pollute. There simply must be education on the seal issue because at present there is a degree of public deception. Canada now has a Royal Commission on seals, and it is recommending controls. In the east, the seal population is affecting the cod-catch, and it is becoming harder and harder to process the contaminated fish.

NORTHWEST ATLANTIC FISHERIES ORGANIZATION

The Northwest Atlantic Fisheries Organization (NAFO) began operations on January 1, 1979, taking the place of the International Commission for the Northwest Atlantic Fisheries (ICNAF). The United States was instrumental in establishing the ICNAF in 1950 in order to compile statistical data and coordinate scientific research regarding Northwest Atlantic fisheries. In the 1960's ICNAF undertook an international effort to conserve and manage a number of fisheries, but its efforts ultimately were judged to have produced "too little too late" as coastal nations acted in the mid-1970's to extend their fisheries jurisdiction to 200 miles.

The United States withdrew from the ICNAF Convention on December 31, 1976, since continued adherence was considered incompatible with extended U.S. fisheries jurisdiction. Still, the United States subsequently took part in the negotiations that led to the NAFO Convention. The United States and other former members of the ICNAF thus sought to assure continuation of the data base on fisheries accumulated under the ICNAF and to provide for continued multilateral scientific cooperation. In addition, international cooperation was needed to provide for conservation and management of fisheries beyond 200-mile zones in the Northwest Atlantic, primarily on the Flemish Cap east of Newfoundland and on the southeastern portion of the Grand Banks.

In 1983, the Senate gave its advice and consent to U.S. accession to the NAFO Convention, but the United States has not yet deposited the U.S. instrument of accession nor has implementing legislation as yet been enacted.

A Canadian delegate opened the discussion by saying that the Flemish Cap and the nose and tail of the Grand Banks were managed by the NAFO without enforcement. The United States was not a signatory to the NAFO and quotas do not work. He indicated that there was an increased U.S. fishing presence there which may have been the result of the division of the Georges Bank, but the fact remains that U.S. fishermen are where Canadians cannot go. Canadians feel that the United States should participate in the NAFO even if others like Taiwan and Korea are not signatories.

An American delegate noted the action taken by the Senate in 1983 in giving consent to NAFO, but said there were some problems for the United States. He indicated that there was little incentive for U.S. involvement in the NAFO unless there was some compensation or some quota. It was also noted that the European Economic Community (EEC) does not want a quota for the United States. A NAFO member, the EEC for the past two years has objected to nearly all total allowable catches and quota divisions in the NAFO area, and therefore vessels of EEC member states fish in the NAFO area under regulations adopted unilaterally by the EEC.

A Canadian participant noted that Canadian fishermen had been dislodged from traditional areas and that Canada has been hard on its own fishermen in order to promote the NAFO. Canada has endeavored to inspect the Russian fleet although the Canadians never actually see what the Soviets do. Canada recognizes the problems of cod stocks but Canada alone cannot control the stocks in the North Atlantic. The United States and Canada may have squabbles but they must recognize the common interest.

Another Canadian member spoke of the mutual interest we have in controlling this area. The condition of the fish stocks is not good, and it is essential that we work to get the NAFO back on track. All countries which have an interest in fishing there must work together. Canada has cut its quotas on fish by 50 percent in the last decade and, if the present situation continues, its catch will decrease further. The seal and the fisherman remain the worst predators in the Atlantic zone. We will also need quotas on each species of fish, not fish generally.

An American member spoke of the growing popularity of seafood diets in the United States and of the 40 percent of the world's fish resources which are in U.S./Canadian waters. Canada's conservation helps the United States, and the United States should recognize this fact. It was noted that the United States has a chicken and egg problem: the United States sees no acceptable alternative to the NAFO, but it will not become a member without assurance on the quotas.

A Canadian delegate concluded the discussion by indicating that Canadian fishermen are continually telling the Canadian Government that it needs to negotiate harder and better. Fishermen feel that their interests have not always been protected by the government. A Canadian-French agreement was mentioned which embarrassed the government and enraged the fishermen. Canada has

made many concessions to make the NAFO work, but it needs the cooperation of other nations and cannot accomplish common objectives alone.

ACCESS AND MANAGEMENT ON GEORGES BANK

The decision of the International Court of Justice in the East Coast maritime boundary dispute awarded Canada about one-sixth of Georges Bank and certain parts of the Gulf of Maine in October, 1984. The decision effectively foreclosed U.S. fisheries in areas that had been worked for generations by U.S. fishermen. Immediately after the International Court of Justice decision, the Department of State, at the request of the entire New England congressional delegation, approached Canadian authorities with a proposal for a 1-year reciprocal fishing agreement in formerly disputed boundary areas. The Government of Canada rejected this proposal but indicated its willingness to discuss other fisheries issues of mutual interest.

Faced with declining groundfish (primarily cod, haddock, and yellowtail flounder) stocks in the U.S. zone, a number of New England fishing interests have called for a renewed effort to obtain access to the Canadian zone. Canada has indicated emphatically that it is prepared to discuss fishing access only in exchange for reciprocal fishing access to the U.S. zone. But the bread-and-butter stocks in each country's zone are largely fully harvested by its domestic fishermen, making access-for-access arrangements particularly difficult to consider. In addition, fishermen in one area are not anxious to give up fishing opportunities to enable fishermen in another area to gain access to the other country's zone. This is the case in Canada as well as in the United States.

A Canadian delegate noted that Canada had originally wanted to divide the Georges Bank equally, but now they have only one sixth of the area and the United States wants to fish there. Canada wants the integrity of its one-sixth and it wants the area protected. The other five-sixths is for the United States.

An American delegate wanted to know what Canada wanted. It was mentioned that there is probably a linkage between the NAFO and the Georges Bank issue, and the two issues might be handled together.

A Canadian delegate said these issues are negotiable. There must be Atlantic cooperation and the negotiations should be on the current catch, not the historical catch, given changed conditions. Another Canadian delegate saw the need for quotas. England's fishing fleet had invaded the Canadian sixth of the Georges Bank because scallops existed there and the price of scallops is high today. An American noted that in the American zone there was mainly cod, haddock, and flounder.

Another Canadian participant said that the basic problem was that the U.S. approach was unregulated and the Canadian approach was regulated. The size of the boat and the size of the catch must be regulated, and there is a need for improvement of U.S. management on these issues. A third Canadian delegate added that what were considered trash fish many years ago and were underutilized are now important and need better management.

An American delegate concluded the discussion by indicating that these issues need higher visibility in bilateral dealings. Clearly, the economics of fishing are changing and there is a need for better understanding and cooperation through negotiations.

PLENARY SESSION

Canada-United States Trade Negotiations

In September 1985 Prime Minister Mulroney proposed that the United States and Canada enter into negotiations for a comprehensive bilateral free trade agreement. Two-way trade between Canada and the United States amounted to $120 billion in 1986. Canada and the United States are each other's largest trading partner. Canada receives 20 percent of total U.S. exports, and the United States is the market for 80 percent of Canadian exports.

A Canadian member introduced the subject of the United States-Canadian trade negotiations by saying that the scale of the challenge was monumental, but that success would be an extraordinary achievement. He reminded his colleagues that it was advocacy of a free trade agreement with the United States that brought down the Laurier Government in 1911.

He explained that Canada's objective in the negotiations is for a comprehensive agreement. Among its goals are: (1) tariffs brought down to zero; (2) opening of all procurement, at the federal level and at the state and provincial level; (3) free movement in trade in services (Canada is in the process of deregulating transportation and would open up banking); (4) elimination of subsidies—the difficulties concerning which include how to handle regional development incentives and assistance for disadvantaged and minority groups, and finding an agreed definition of subsidy. Also important to an agreement are trade remedy procedures, including a dispute resolution mechanism, and agreement on what is free trade.

There obviously are limits to any agreement. Items that would appear to be sacrosanct and would have to be left outside a free trade agreement include: in U.S. law, the Jones Act, minority set-asides, areas of defense procurement, and sugar; in Canadian law, regional subsidies and cultural industries; in both countries, agriculture. Canada is serious about the negotiations and wants as broad an agreement as possible.

Another Canadian made the point that, despite Canada's sizable merchandise surplus with the United States, when services and invisibles are included in the calculation, Canada is not part of the U.S. trade problem.

An American member responded that he was in general agreement with the comments of his Canadian colleagues. He said it was true that, when services and invisibles are included in the statistics, United States-Canadian trade is near balance, but that does not help, given the unprecedented U.S. trade deficit with the rest of the world, which is what is influencing the U.S. political climate.

He said the United States is not interested in a bilateral trade agreement unless it is comprehensive. Reducing tariffs should not be a problem. But other areas will be difficult to negotiate: (1) pro-

curement is complicated, particularly given the role of the Canadian provinces; (2) direct foreign investment; (3) services will be complex, given the different rules and regulations governing banking, medicine, and the legal profession; (4) protection of intellectual property rights; (5) subsidies will be sticky, particularly finding an agreed definition of subsidy and how to limit subsidies; (6) a dispute settlement mechanism is critical to an agreement, the question is how to fashion an objective arbitration system and what law to interpret—Canadian, United States, international, or a new law set out in the agreement.

October 5, 1987, is the deadline for the President to notify the Congress of his intent to enter into a bilateral trade agreement with Canada. The time is short to negotiate a comprehensive agreement given the scope of United States-Canadian trade relations, but now is the window of opportunity which may well be lost if the agreement is delayed until next year. In Canada the power to control external trade rests with the Executive. In the United States it rests with the Congress. The Congress has given up considerable power in authorizing the "fast track" mechanism, as it deprives itself of the right to amend the legislation.

A Canadian delegate explained the importance of the issue of cultural sovereignty. Although Canada and the United States share similar values, Canada evolved differently than the United States. It has a distinct history and needs its own cultural identity. In addition, a firm economic/financial base is necessary in order to support the development of ideas and the arts. There has been near free trade in culture between the United States and Canada, and that is what has led to the dominance of the United States in this area. In Canada, 70 percent of textbooks are American, 89 percent of phonograph records are American, and 95 percent of films are American. There is insufficient base for a Canadian cultural industry. He said that, in fact, he agreed with Congressman Gephardt that, where there is a chronic imbalance, corrective action must be taken. He said that there are many in Canada who do not ordinarily believe in government intervention who support a role for the government in the arts—which first occurred in the 1930's in radio and television, and was extended later through bill C–58 and now the proposed legislation on film distribution. He noted that the GATT provides exceptions from national treatment for culture, as does the European Community.

Several Americans responded that the United States must be sympathetic to Canada's defense of its own ideas and culture, but not where economic protectionism masquerades as culture. The United States will yield to Canada's protection of its own culture, but not on all of the specific ways that may be proposed—such as Canadian practice on border broadcasting and the new policy on film distribution.

An American also noted that expectations on the free trade negotiations are very high, but the relationship is complex and the task not easily accomplished. He noted that there is an important reservoir of good will toward Canada in the U.S. Congress.

A Canadian member explained the need for Canada to institute special policies to protect and promote Canadian culture. The Government has proclaimed the new policy on film distribution be-

cause Canadian films account for less than 5 percent of the market and there is an insufficient revenue base for the Canadian film production companies to compete fairly. Furthermore, American firms monopolize the distribution of foreign films in Canada because the Webb-Pomerene Act permits restraint of trade outside the United States. As to past actions, C–58 was necessary because there was no Canadian news magazine, and Canadian television stations could not compete with U.S. border stations for advertising revenues.

He pointed out that the United States faced a similar situation in book publishing at the turn of the century and adopted a restrictive policy to build up the domestic book publishing industry. An American said that U.S. policy had been wrong and was finally removed from the statutes last year. He suggested that a more acceptable policy for Canada would be to simply reserve a portion, say 20 percent, of film showings and distribution for Canadian product. He said that in the United States C–58 is viewed more as a commercial venture than a defense of culture. If Canada is to pursue such trade restricting avenues, it will have to put something on the table in return.

A Canadian inquired whether the deadline for the "fast track" negotiating authority could be extended. The response from several American members was that, yes, the deadline could be extended by amending the law, but that, practically, it would be very difficult. It was pointed out that 1988 was a Presidential election year in the United States and therefore not the most opportune moment to consider trade legislation. Further, it was reported that the original "fast track" authority had been slipped through the Senate, without many members being aware that it prevented the offering of amendments to implementing legislation, and an attempt to extend such unusual authority at a minimum might be filibustered. The authority has to work this time because it might not be granted again.

A Canadian pointed out that his Government does not have the same negotiating power as the U.S. Government. He noted that the time between now and October 5th is short, particularly to get the provinces on board when they have as yet to be shown a draft. The next First Ministers meeting is June 22nd, and it is unlikely they will be shown a draft then. Yet the provinces will have to review and agree to some of the provisions, such as those dealing with procurement and services. An American pointed out that there is not the same difficulty in the United States, where the Federal Government is preeminent in foreign trade. A Canadian said that ultimately it is the Federal Government that will speak for Canada and that, in a world that is dividing into trading blocs, it is becoming increasingly important for Canada and the United States to establish their own trading group.

A Canadian member expressed the view that Canada had turned down free trade arrangements with the United States in the past because of concern that it would be the end of Canada as a distinct country. That sentiment can still be found in Canada today. Another difficulty is that Canada is a more advanced welfare state than the United States. He asked what were the alternatives—protectionism or a scaled-down free trade arrangement?

An American responded that the alternative is the status quo, continuation within the context of a large multilateral trade scheme. However, a good free trade arrangement will assist economic efficiency and raise the standard of living in Canada and the United States. It is uncertain what the future would hold were the negotiations to fail, but there would be considerable political disappointment. In any case, the two countries definitely need a dispute settlement mechanism.

A Canadian asked who would sell an agreement to the U.S. Congress and whether there would be any impact from the Iran/Contra affair. The response was that Ambassador Clayton Yeutter will work with Peter Murphy on securing congressional approval of an agreement and that the Iran/Contra affair has been discounted already in American politics.

A Canadian member said that, if the United States and Canada cannot work out a free trade agreement, then no two countries can. Another noted that if we don't get an agreement, it's not the end of the world, as we still have a great relationship.

Meech Lake Agreement

On April 30, 1987, agreement was reached between Canada's Prime Minister Brian Mulroney and the premiers of the country's 10 provinces on amendment of the federal constitution. The accord removes the principal remaining impediment to gaining acceptance of the constitution proclaimed 5 years ago. Quebec, whose "distinct identity" within Canada is explicitly stated in the constitutional accord, had been the primary obstacle to a national consensus on the issue since 1982. Federal and provincial legislatures must now endorse the agreement, but prospects for approval are considered favorable.

A Canadian participant summarized the provisions of the accord and the historical events having a bearing on it. Until the constitutional changes of 1982, Canadians had been obliged to apply to the British parliament each time they wanted to change the federal constitution. The changes, including a bill of rights and a new mechanism for making constitutional amendments, were accepted by all provinces except Quebec. The Meech Lake Agreement brings all the provinces together by relinquishing some federal powers to the provinces and by recognizing "that Quebec constitutes within Canada a distinct society." Provincial authority is increased over immigration policy, government programs, and appointments to the Senate and Supreme Court. The impact of the agreement on the conduct of foreign relations, trade, and most responsibilities under the aegis of the Federal Government was described as minimal.

The attitudes of Canadian participants toward the agreement ranged from enthusiastic support to firm opposition. Some participants viewed the accord as relinquishing too great a share of federal power to the provinces. Provinces with weaker economies may not have the resources necessary to sustain important programs. In addition, Quebec was ceded disproportionate clout and may intrude into the realm of Canada's foreign relations. It was feared that each province would be enabled to develop its own immigration

policy and the result could be decisions reflecting regional ethnic and racial bias.

Other participants viewed the concessions made to Quebec and the provinces as minor. The Federal Government would continue to be preeminent in foreign affairs and a "Balkanization" of authority would not result.

The key issue for Canadian participants was whether there would evolve in Quebec's large French speaking society a "distinctness," or a "separateness." The result, of course, will be observed with great interest by those on both sides of the Canadian-United States border.

APPENDIX

Summary of Canadian Defense White Paper

CHALLENGE AND COMMITMENT

A Defence Policy for Canada

A Synopsis of The Defence White Paper

Fundamentals of Canadian Security

Because there is no external threat unique to Canada and Canada alone cannot assure its security, we rely on common defence arrangements with other free nations. Since 1949, these collective arrangements have been made under the North Atlantic Treaty Organization (NATO).

Canadian security policy has three major elements: defence and collective security, arms control and disarmament, and the peaceful resolution of disputes.

International Environment

Canadians live in an environment dominated by the rivalry between East and West. These two groups of nations are separated by a conflict of ideas and values. They are divided on how politics should be conducted, society ordered and economies structured. They are divided on the value of personal freedom, on the importance of the rule of law and on the proper relationship of the individual to the society. In this struggle, Canada is not neutral. Our values and our determination to defend freedom and democracy align us in the most fundamental way with other Western nations.

Europe is the centre of gravity in the balance of power between East and West. Since the Second World War, the Soviet Union has maintained in Central Europe massive armed forces much larger than those needed for defence alone. The Western response has been to deploy forces sufficient at least to deny the Soviet Union the prospect of an easy victory.

A free and secure Western Europe is critical to Canada's future. Our political, cultural and social ties with Europe are unmatched by those with any other region, except the United States. If a free Western Europe were lost, what remained of the West would face a bleak future. The context in which Canada seeks its destiny would be diminished in every respect and our future as an independent nation would be in doubt.

Canada also has growing interests in Asia and the Pacific Rim, a region which has recently experienced massive change. Here too, vast armed forces confront each other, and the already large Soviet naval presence in the North Pacific is expanding.

The Arctic Ocean is an area of growing strategic importance. Increasing use of the region by submarines, for example, raises both sovereignty and security concerns for Canada.

Many parts of the world are plagued by instability and regional conflict, which could lead to world war. That is why a stable international environment and effective measures to resolve disputes peacefully are critical to Canada's security.

Strategic Deterrence

The principal direct threat to Canada is a nuclear attack on North America by the Soviet Union. To discourage such an attack, Western nations rely upon a strategy of deterrence based on diversified nuclear forces. These forces must be able to survive an attack and retaliate in a manner that will convince any potential aggressor that the penalty he risks far outweighs any gain he might achieve.

Canada has no nuclear weapons and no intention of acquiring them. To deter a Soviet nuclear attack on Canada, we rely on the strategic nuclear retaliatory forces of our principal ally, the United States. We contribute to deterrence by helping defend these retaliatory capabilities, notably through NORAD.

Conventional (Non-Nuclear) Defence

Soviet conventional forces also threaten Canadian security. Although this threat is most evident in Central Europe, where Warsaw Pact forces outnumber those of NATO, it also exists wherever else Canadian interests and Soviet military capabilities overlap: at sea, in the Pacific, the Atlantic and the Arctic, and in the air over the approaches to North America.

To counter the conventional threat requires adequate numbers of properly trained and equipped conventional forces. It may not be necessary to match the other side soldier-for-soldier and weapon-for-weapon, but by increasing the effectiveness of our conventional forces and their ability to fight over an extended period, we can reduce our reliance on nuclear weapons.

In an era of dramatically increasing complexity and cost of weapons, credible conventional defence requires that all members of NATO contribute to collective security. Canada plays its part through naval forces in the Atlantic and the Pacific, through land and air forces at home and in Europe, and through NATO's common funded programs.

Sovereignty

After the defence of the country itself, there is no issue more important than protecting our sovereignty. The military is called upon when the civil authorities are unable to enforce Canadian laws and regulations or when Canada's jurisdiction is challenged by other states.

The Government will not allow Canadian sovereignty to be diminished. It will ensure that the Canadian Forces are able to operate anywhere within Canadian jurisdictional limits.

Peacekeeping

Canada has a respected record in peacekeeping and a proven competence in helping settle disputes. Canadians have participated with distinction in every United Nations peacekeeping operation since the end of the Second World War.

Our continued support for the United Nations' quest for global peace makes an important contribution to world stability and therefore to Canadian security.

Arms Control

Arms control and defence are mutually supporting elements of Canadian security policy. The policies pursued in each area share the common goal of increased security and stability at the lowest level of forces. The Department of National Defence works closely with the Department of External Affairs in formulating arms control proposals, in consulting with our allies, and in negotiating agreements.

The Commitment-Capability Gap

Since coming to office, the Government has reviewed Canada's military commitments in relation to the current capabilities of the Canadian Forces. Its review has confirmed that we are unable to meet those commitments fully and effectively — that, after decades of neglect, there is a significant "commitment-capability gap". Much of the equipment of the Canadian Forces is already old and ineffective against current threats. Modernization programs have not kept pace with technological change.

The navy has too few ships and submarines for Atlantic and Pacific operations and a very limited capability to operate in the Arctic. It could not keep Canadian waterways and harbours clear of mines. The land forces have severe equipment shortages and too few combat-ready soldiers, and the Militia is too small, ill-equipped and insufficiently trained to make up the difference. The air forces suffer from a serious shortage of air transport to move troops and equipment to Europe in times of tension and to sustain them during hostilities. They have too few maritime patrol aircraft. They lack sufficient numbers of modern weapons for the CF-18 aircraft and cannot replace CF-18s lost in peacetime. Nowhere is the gap more evident than in the lack of logistic and medical support for our forces committed to Europe.

At the root of the problem is the level of funding for defence over the last 25 years. A long-term trend towards spending smaller percentages of the federal budget and of Canada's Gross Domestic Product on defence has been evident since the early 1960s. In some of those years, defence spending actually decreased. In many others, it did not keep pace with inflation. Inevitably, the portion of the defence budget that suffered most from this neglect was that used to buy new equipment.

In recent years more money has been spent to purchase equipment, but not enough to overcome the "bow wave" of deferrals since the 1960s. If this condition were allowed to continue, it would soon lead to "rust-out", the unplanned and pervasive deterioration in the military capabilities of the Canadian Forces. Eventually, the Canadian Forces would not be able to operate safely and, finally, any useful contribution to collective security would disappear.

On the basis of its defence review, the Government has decided to consolidate some commitments to make more efficient use of available resources, while improving the effectiveness with which the remaining commitments are carried out. Defence spending will be increased sufficiently to help the Canadian Forces respond to the challenges of the 1990s and beyond. The effects of decades of neglect can be overcome, but it will require a long-term solution: a steady and predictable funding program based on coherent and consistent political leadership.

The Way Ahead

Canadian defence policy will continue to be based on collective security within the North Atlantic Alliance, including the continental defence partnership with the United States. Canada will participate in collective deterrence and defence in North America, in Western Europe and at sea. Canada's contributions to peace and security will not stop there, however. In the pursuit of a more peaceful world, the Canadian Forces will rededicate themselves to resolving regional conflicts through peacekeeping. The Department of National Defence, with the Department of External Affairs, will continue the search for effective arms control which will enhance security and stability while lowering the level of armed forces.

In charting the way ahead, the Government will take a number of new initiatives. These changes will serve both national and alliance requirements. Collectively, they will significantly increase the overall effectiveness of the Canadian Forces.

We will provide the navy with modern, capable vessels for operations in the three oceans which border our country: the Atlantic, the Pacific and the Arctic. Our capacity for surveillance and defence of Canadian territory will be bolstered. The Reserves will be revitalized and enlarged to assume a greater role, both in the defence of Canada and in supporting and sustaining our overseas commitments. Our land and air commitments in Europe will be consolidated on the central front to provide a credible and more readily supportable Canadian contribution. These initiatives, combined with what is already being done, will eventually produce the best affordable force structure and a military capability to meet our commitments effectively. With these changes, Canada will become a more responsible partner. We will be more honest with our allies, with our citizens, and with the men and women of the Canadian Forces who risk their lives in our defence.

In brief, the key initiatives of the new defence policy are:

To Create a Three-Ocean Navy, by:

— building six new frigates in addition to the six currently under construction and the four destroyers being modernized;

— acquiring a fleet of 10-12 nuclear-powered submarines to operate in the Atlantic, the Pacific and the Arctic;

— installing a modern, fixed, under-ice surveillance system in the Arctic;

— developing new sonar systems and acquiring detection array towing vessels for better underwater surveillance;

— building minesweepers for the Naval Reserve; and

— acquiring new shipborne anti-submarine warfare helicopters.

To Reinforce Surveillance, by:

— purchasing at least six new long-range patrol aircraft;

— modernizing the existing fleet of medium-range patrol aircraft;

— maintaining the strength of our CF-18 aircraft and arming them effectively;

— promoting research, development and deployment of space surveillance systems; and

— investigating the installation of synthetic aperture radar in existing aircraft.

To Strengthen Territorial Defence, by:

— expanding the Canadian Rangers, improving their equipment, training and support;

— creating new Militia brigades which, together with the Special Service Force and the Canadian Airborne Regiment, will form a task force;

— providing new equipment and training for territorial defence;

— creating within the Militia a military vital point guard to secure key installations across the country;

— establishing a northern training centre in the High Arctic; and

— setting up a regional command structure.

To Improve the Credibility of our Contribution to Alliance Deterrence in Europe, by:

— cancelling our unsustainable commitment to send a brigade group and two fighter squadrons to northern Norway in order to consolidate our commitments on the central front into land and air divisions;

— pre-positioning equipment and supplies for the Canada-based brigade group (5 GBC) which in time of crisis will join the brigade group permanently stationed in southern Germany (4 CMBG);

— pre-positioning equipment and supplies for the AMF(L) Battalion Group assigned in time of crisis to Northern European Command;

— re-equipping our armoured regiments with new main battle tanks;

— assuring sustainment of the army division by 1 Canadian Brigade Group and the new Militia brigades;

— increasing the personnel strength in Europe to provide land and air Divisional elements and larger logistics and medical support cadres; and

— providing additional airlift capability.

To Revitalize the Reserves, by:

— introducing a Total Force Concept, reducing the distinction between the Regular and Reserve forces;

— assigning the Reserves specific wartime tasks;

— improving the quality and quantity of training and equipment;

— increasing the Reserves to 90,000 personnel over time;

— investigating reactivation of university Reserve officer training programs; and

— improving Reserve pay and benefits.

To Build a Firmer Foundation for Future Defence by:

— providing equitable opportunities in both official languages in the Canadian Forces and the Department of National Defence;

— expanding the role of women in the Canadian Forces;

— ensuring that the composition of the Regular and Reserve Forces more adequately reflects the ethnic diversity of Canadian society;

— strengthening defence industrial preparedness;

— enhancing the contribution of the Canadian Forces to foreign disaster and humanitarian relief;

— broadening and extending the Military and Strategic Studies program;

— replacing the *War Measures Act* with new emergencies legislation; and

— introducing legislation to establish Emergency Preparedness Canada, the agency responsible for co-ordinating the civil aspects of Government-wide mobilization planning.

Major military equipment programs take a long time to complete and the Government will not be able to implement all these initiatives at once. The goal, however, is to have them all substantially in place by the end of the 15-year planning period covered by the White Paper. The Government is committed to annual real growth in defence spending which will not fall below two per cent over that period. Increased resources above this planned funding floor will be provided as major projects forecast in the White Paper are introduced.

Conclusion

Canadians are blessed in their history and geography. For 170 years, we have been free from invasion and, as a nation, we have never had to suffer occupation. While Canadians look optimistically towards the future, history teaches us the need for prudence and preparedness. Countries which do not look to their own military forces often become the victims of the forces of others.

The defence review has confirmed that Canadian defence policy will continue to be based on a strategy of collective security within NATO, including our defence partnership with the United States.

The Government will restore the credibility of Canada's contribution to the deterrence and defence needs of the Alliance through consistent leadership and steady, predictable funding of the defence program.

Over time, our initiatives will provide the Canadian Forces with the capabilities to respond to challenges into the next century. Canadian security and sovereignty will be better served. Canada will become a more responsible defence partner within NATO, and we will have a firmer basis from which to do our share in the maintenance of peace and freedom.